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ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

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INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST NINE MONTHS OF 1988

Product	Jan-Sept 1988	Jan-Sept 1988 as a % of Jan-Sept 1987
Electricity (billion kw hrs)	1245	102%
Petroleum (million tons)	468	100.3
Natural Gas (billion meters^3)	566	106
Coal (million tons)	579	102
Steel (million tons)	*	*
Fertilizer (million tons)	27.8	103
Metal-cutting tools (thousand units)	16.6	107
Robots	*	*
Computer tech. (billion rubles)	4.6	115
Tractors (million hp)	38.6	100.3
Paper (million tons)	4.7	102
Cement (million tons)	105	102
Meat (million tons)	9.2	104
Margarine (million tons)	1.1	102
Watches (million units)	55.2	106
Radios (million units)	6.0	99.5
TV sets (million units)	7.1	108
Automobiles (thousand units)	962	97

* not published

LIVESTOCK HERDS

Herd	Oct 1 1987	Oct 1 1988	%Change 1987-1988
Cattle	96.3	94.6	-1.7
Cows	28.9	28.6	-0.3
Hogs	60.9	60.7	-0.2
Sheep & Goats	123.8	123.7	-0.1
Poultry	791.3	799.4	+8.1

INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST 3 QUARTERS OF 1988

The economic news coming out of Moscow on the whole is rather discouraging. Superficially the overall indices appear to be favorable. For example, Soviet authorities report that production of national income rose by 4.7% during the first nine months of 1988. In 1987, that figure grew only 2.4% over 1986. Certainly there was an increase in the overall volume of foreign trade. It was 2% for the first nine months of 1988 compared to a drop of 2% for the first nine months of 1987 over 1986. But generally, we have tried to avoid using composite indices. They have proven to be misleading. The need to be very circumspect about the use of Soviet figures was highlighted by the fact that the Soviets have just announced that their national budget was in deficit by a significant amount. Moreover, it turns out that the budget has been in deficit for the last decade. This has made Western observers much more circumspect about the use of Soviet statistics. But there are other figures which do indicate that there are some problems. These figures reflect production in individual industries and while they too leave something to be desired, they are more likely to be accurate because you are dealing with fewer indices and it is easier to report specific quantities of production.

What has to be discouraging, therefore, is the report about the increase in production of individual industries. For example, the generation of electric energy rose by only 1% in the month of September, compared to a year ago. Previously that figure was rising on a monthly basis at the level of 6 to 7%. Certainly oil production must be of great concern. Oil output in September 1988 dropped by 2%. Coal production was constant on a September to September basis. The Soviets omitted the production output of steel. The report for August indicated that the output in August 1988 was the same as it was in 1987. Whenever the Soviets omit a figure, the assumption is usually that they are embarrassed by it and this suggests that steel output also dropped. The only good news in these basic economy figures is that gas production for September rose 5%. For the whole nine months, it rose 6%.

We also now have some other indicators that are being released by the Soviets as part of *glasnost*. These are statistics we would normally not have on a nine month basis. The information, however, suggests just how serious Gorbachev's problem is. One of the most striking revelations is that construction of apartments is down by 4% for the nine months of 1988 compared to 1987. Housing construction in 1987 was one of the more impressive achievements the Soviets had and was a source of pride. Similarly, the nine month report places a good deal of stress on the fact that food production and availability has not improved. The statistics show, for example, the production of sugar is down by 11% from what it was during the first nine months of 1987. Sales of sugar did not fall as much, but nonetheless were 3% lower. The commentary that accompanies the statistical report indicates, however, that "despite the growth of volume of sales, there remains a very serious problem of providing the population with many products of food, especially meat." The report goes on to indicate that the assortment of potatoes and vegetables is also inadequate and that even so, there is very high spoilage in these commodities. Reflecting the problem, the report indicates that "in a series of places and for the purchase of goods of every day consumption (such as sugar, meat, sausage, confectionary products, butter and margarine, fruits and vegetables) the consumers are adversely affected and on the average must spend one hour every day trying to purchase such goods. For some products they must spend from one to three hours.

There is also information for the first time about prices. The Soviets acknowledge that in the collective farm markets, the prices have risen 2% on average from last year, and by 3% on meat, by 5% on potatoes, and by 8% on fruits. They go on to indicate that the level of collective farm market prices on average is 2.7 times higher than the prices in government shops and on some products, 5 to 8 times higher. The Soviets have published information elsewhere indicating that indeed inflation has become a concern, although it is probably still below 8% a year. This inflation, in part, has been set off by the fact that in order to finance the budget deficit, the Soviets have had to print additional currency.

There is also something worth noting about the format of the statistical report. Traditionally the first part of the report is dedicated to the production of industrial prodcts such as steel, machine tools and tractors. For the first time, consumer goods are moved to the front of the report and the heavy industry items are relegated to the back of the report.

LIVESTOCK HERDS

The Soviets continue to have difficulty with their livestock herds. The cattle herd dropped by 2%. There was also a decline in the size of the number of cows, pigs, sheep and goats, but the percentage was smaller. Nonetheless, it was a decline. Only the number of chickens increased, and this was an increase of 1%.

SOVIET BALANCE OF TRADE FIGURES WITH WESTERN EUROPE AND JAPAN

We had a description of these figures last month but neglected to include the table. We apologize for the inconvenience and have included the

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SOVIET BALANCE OF TRADE WITH EASTERN EUROPE

As was the case last year, the Soviets seem to be extracting more from Eastern Europe than has normally been the case. Their trade deficit with the East European bloc as a whole was over 600 million rubles. Given that except for last year, the Soviets normally have a trade surplus with Eastern Europe, this is a decided change in emphasis. The only country where the Soviets export more than they import is the German Democratic Republic. For the first time in almost a decade, the Soviets now even import more from Poland than they export. This certainly suggests that for most of the countries in Eastern Europe, there is a new strain in their trade with the USSR.

ARDEN HOUSE 1989

The program for the 1989 Arden House Conference on American-Soviet Relations is now under preparation and will be mailed out in December.

The Arden House Conference is jointly sponsored by the Russian Research Center of Harvard University and the W. Averell Harriman Institute for the Advanced Study of the Soviet Union at Columbia University. Participants include senior level business executives, government officials, lawyers, journalists, and academic specialists. The topic for this year's discussions will be "American-Soviet Relations: Will a New American Administration Make a Difference?". Dates of the conference are March 31 through April 2, 1989. The conference is held at Arden House, formerly one of the summer residences of the W. Averell Harriman family, located approximately an hour and twenty minutes from New York City.

Panel topics will include "Political Restructuring," "Foreign Policy Relations," "Economic Reform Comes of Age," "Soviet Foreign Trade," "The Congressional View," "Soviet Sales to the West: Some New Opportunities," and "Operating in the Soviet Union: A New Commitment or the Same Old Thing?" For more information, contact Marshall Goldman or Catherine Reed, (617) 495-4485.

CORPORATE SPONSOR SEMINARS: ORIENTATION FOR JOURNALISTS CONFERENCE

"GORBACHEV AND CHANGE IN THE USSR: Implications for the Bush Administration"

The second Corporate Sponsor Seminar for the 1988-89 year will take place on November 28, 1988, at the Harvard Faculty Club. Panel topics will cover arms control, social policy, domestic reform and economic restructuring. This conference will be our annual orientation for journalists who wish to learn more about the Soviet Union. The program is expanded beyond the day-long format to include an evening session with journalists returning from assignments in the USSR. This panel will feature Walt Rogers, the former Bureau Chief of ABC News in Moscow and Gary Lee (still unconfirmed at the time of this writing) the former Moscow Bureau Chief for the Washington Post. Conference sponsors are the Russian Research Center, the Nieman Foundation, and the Joan Shorenstein Barone Center on Press, Politics and Public Policy of the John F. Kennedy School of Government of Harvard University. A program and application form are enclosed. Contact Ms. Catherine Reed, (617) 495-4038, for more information.

RRC BOUTIQUE EXPANDS ITS LINE

In addition to its well-established line of T-shirts and sweatshirts for the discerning watcher of things Soviet, the Russian Research Center is pleased to announce an addition to its quality line of **Гарвард** products. We now have available silk ties with a very handsome alternating stripe and **Гарвард** pattern. We will soon be introducing a women's 100% silk scarf as well. What better gift could you find for the holidays ahead? An order

We would like to thank Barbara Severin for calling and informing us that a very abbreviated report of the 5-month production figures appeared in Vestnik Statistiki #7, p. 11.

USSR Foreign Exchange Quotations

Currency	27 July	3 Aug	10 Aug	14 Sept	28 Sept	5 Oct	12 Oct
£100 Sterling	108.17	107.56	106.80	106.05	105.14	106.49	106.77
100 Aust. sch.	4.81	4.77	4.73	4.80	4.77	4.78	4.80
$100 US	62.06	62.81	63.21	62.58	63.16	62.82	62.54
100 Fr. Francs	10.02	9.93	9.87	9.94	9.85	9.88	9.89
1,000¥ Japanese	4.73	4.72	4.72	4.69	4.68	4.69	4.72
10,000 Italian Lire	4.57	4.54	4.51	4.52	4.50	4.51	4.51
100 Swiss Francs	40.66	40.13	39.87	40.06	39.71	39.66	39.72
100 Deutsche Marks	33.82	33.41	33.25	33.81	33.55	33.62	33.73

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE FOR THE FIRST HALF OF 1982-1988

(in million rubles)

Exports from the USSR

	1982	1983	1984	1985	1986	1987	1988
Bulgaria	2372	2880	3174	3156	3225	3050	3093
Czechoslovakia	2460	2855	3346	3317	3368	3375	3218
GDR	3093	3321	3583	3710	3826	3704	3489
Hungary	1991	1961	2266	2207	2311	2205	2215
Poland	2363	2595	2916	3089	3415	3042	3164
Romania	660	849	952	889	1355	1212	1200
Total exports:	12940	14461	16237	16368	17500	16588	16379
Balance of trade:	+694	+735	+1067	+415	+1354	-217	-620

Imports to the USSR

	1982	1983	1984	1985	1986	1987	1988
Bulgaria	2259	2573	2823	2912	3011	3317	3295
Czechoslovakia	2491	2766	2996	3246	3306	3480	3476
GDR	2902	3228	3772	3821	3488	3488	3358
Hungary	1793	1886	2042	2280	2349	2469	2408
Poland	1880	2382	2594	2611	2750	2894	3255
Romania	921	891	943	1083	1242	1157	1207
Total exports:	12246	13726	15170	15953	16146	16805	16999

SOVIET BALANCE OF TRADE: 1st Half of 1980 through 1988
(million rubles)

	Exports from the USSR									Imports to the USSR								
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1980	1981	1982	1983	1984	1985	1986	1987	1988
Austria	280	392	346	271	381	370	286	169	238	160	258	251	380	481	403	437	312	359
Belgium	401	249	530	501	577	384	280	345	398	176	268	329	305	271	298	253	197	218
U.K.	320	349	416	502	691	549	591	674	782	516	631	354	369	395	392	301	287	320
Greece	187	350	275	173	224	238	102	110	160	44	71	78	93	64	69	33	21	40
Denmark	122	74	199	157	153	132	69	47	53	39	151	42	42	51	51	100	46	62
Spain	104	156	77	148	163	299	37	187	288	67	323	101	148	152	102	107	89	82
Italy	893	1066	1362	1446	1503	1019	757	838	828	429	498	592	793	679	659	726	860	831
Nether.	567	430	715	895	727	402	290	387	337	178	344	217	314	132	158	126	140	146
Norway	27	28	37	30	50	56	29	26	31	39	58	34	53	46	39	46	28	38
Germany	1067	1207	2059	1614	2314	1864	1588	1134	1253	1603	1586	1525	1893	1726	1680	1547	1417	1768
France	930	1082	1168	1140	1238	990	751	689	732	937	922	727	973	907	1006	685	649	551
Switzld	173	90	181	257	187	182	161	164	152	205	291	224	211	196	283	270	303	470
Sweden	142	93	159	293	293	235	142	189	206	132	207	207	145	132	177	148	137	125
Japan	471	407	390	388	409	456	471	449	545	907	1168	1532	1237	1036	1245	1293	770	966
Subtotal	5693	5973	7914	7815	8910	7176	5554	5408	6003	5432	6733	6213	6956	6268	6562	5965	5286	5976
Sub-Balance of Trade										-261	-760	+1701	+859	+2642	+614	-411	+122	+27
USA	87	57	76	132	139	147	143	102	145	764	892	1672	878	1272	1764	845	411	1114
Canada	15	28	14	19	9	8	6	8	9	321	489	554	651	388	408	266	275	261
Australia	3	8	6	3	6	11	5	5	6	441	381	411	278	312	402	410	217	189
NZ	1	2	3	1	3	2	2	2	4	115	96	166	108	31	51	63	50	50
Argentina	20	23	15	15	14	23	38	12	8	590	1060	840	798	727	769	126	225	181
Brazil	12	5	90	6	68	27	22	30	8	139	384	275	281	228	169	154	99	63
TOTAL	5831	6096	8118	7991	9149	7394	5770	5567	6183	7802	10035	10131	9550	9226	10125	7829	6563	7834
BALANCE OF TRADE										-1971	-3939	-2013	-1959	-77	-2731	-2059	-996	-1651
Finland							774	836	749							1082	1056	1138
TOTAL (With Finland included)							6544	6403	6932							8911	7619	8972
BALANCE OF TRADE (With Finland included)																-2367	-1216	-2040

Boston Sunday Globe FOCUS

THE SOVIET UNION

SUNDAY, NOVEMBER 6, 1988

Gorbachev policies don't travel well

Provinces show little evidence of heralded reforms

By Gabriel Schoenfeld

In view of the unprecedented policy changes issuing from the Kremlin at an ever-accelerating pace, Western onlookers can't help wondering how much the average Soviet citizen's life has been affected by *glasnost* and *perestroika*. During a recent trip to the far corners of the Soviet Union with a computer-technology exhibition sponsored by the United States Information Agency, I had a chance to see the sharp contrast between the showcase city of Moscow and the dreary life of the provincial towns.

After six months of travel to Tbilisi, Tashkent and Irkutsk, I came away with three powerful impressions. First, *perestroika* has so far had almost no effect on the lives of ordinary people in the provinces, who suffer under an economy of ubiquitous scarcity. Second, while *glasnost* has stirred up great hopes among a narrow, educated strata of the population, the average Soviet citizen is merely dumbfounded at the endless stream of newspaper and journal articles expressing sentiments that only two years ago would have been banned as anti-Soviet. As the party leaders call into question decades of unchallenged dogma, the man in the street no longer knows what to think or say. Third, the fashionable Western conceit that Marxism-Leninism is dead in the Soviet Union (as in "there are more Marxists in Cambridge, Mass., than in Moscow") is mistaken. While there is a segment of the society that is profoundly disillusioned with communist ideology, the common man in the Soviet Union not only accepts Marxist ideology, but thinks and speaks about politics entirely within its vocabulary.

An economy of scarcity

In all three of the cities we visited, a system of rationing was in effect in which basic staples are distributed by means of coupons as if it were wartime. Although local conditions varied, for meat and butter, the monthly allowance was 1 kilo or 2.25 pounds per month per person. One family told us their relatives in Moscow would send them packages of cheese and bologna on a monthly basis. In Tashkent, potatoes were a sore point. The central planning system in distant Moscow has dictated that Uzbekistan primarily grow cotton and import potatoes from other republics. Given the vagaries of the Soviet transport system, an inadequate supply of potatoes makes its way south to Tashkent, and those that do arrive are often rotten. In Irkutsk, sugar recently had been added to the list of rationed items and has become so scarce that it is now known as "white caviar."

It is this economy of scarcity that Mikhail Gorbachev is now attempting to overcome with *perestroika*. As an abstraction, *perestroika* is certainly popular. On the other hand, people are still waiting for it to come to their cities. The hostile reception that greeted Gorbachev during one visit to the Siberian city of Krasnoyarsk confirms what I observed: his reforms have so far left provincial life largely untouched.

Almost everyone I spoke with expects there will be a price reform that will raise the price of the heavily-subsidized basic foodstuffs, but people also expect that salaries will remain commensurate with prices. No one seems to believe that the virtually free housing and other types of subsidized consumption that people now enjoy will ever come to an end. A common refrain was that the leadership is now returning to "Leninist norms" of rule, and people seem to simply believe that this in itself will solve many of the problems afflicting Soviet society. Most Western economists don't share this optimism, and believe that even if *perestroika* is successful, economic conditions will deteriorate before they can improve.

The grumbling over shortages along with the relaxation offered by *glasnost* makes for lively local politics. In Irkutsk, the process of selecting delegates to the 19th Party Conference was under way, and this was a contentious issue, as were environmental concerns connected with the preservation of Lake Baikal.

Anti-Semitism is more violent

Apart from an environmental march one year earlier, these were the first spontaneous demonstrations in Irkutsk (in that they were not organized by the party) since October 1917. Participants carried placards, including one that read "Down with the despotism of fear." The Oblast secretary responsible for ideology addressed the crowd at the first meeting, and was heckled. People shouted "Why is there no toothpaste?" (Answer: Toothpaste is in short supply because you can make an alcoholic beverage out of it.) While these demonstrations certainly reflect a new openness in Soviet society, much remains unchanged.

While in Irkutsk we met with Jewish refuseniks, who recounted to us the intense anti-Semitism they encounter in their daily lives. Compared with the situation of refuseniks from Tbilisi, Tashkent and Moscow, where there are large Jewish communities, life here was far more threatening. A refusenik woman named Kogan was found murdered under a bridge here several years ago. Two other Jews also were murdered, and their assailants have never been caught. This has led to the conviction that the KGB had a hand in these crimes.

The capricious nature of rule that the refuseniks described to us was also in evidence at our exhibition. Plainclothesmen were dispersed throughout our pavilion. A number of Soviet visitors who either befriended American exhibit guides or who voiced criticism of the Soviet Union were visited in their homes by angry "workers" and warned not to come back to the exhibition. Some exhibit visitors were detained by the militia and interrogated. One young man who had befriended an American was detained, released and then, a week later, severely beaten on the head by a Komsomol detachment. While an element of fear was certainly palpable in the cities we visited, it was obvious to me that fear is not the sole or even the main basis by which the Communist Party today maintains its rule. Without question, the years of Stalinist terror have left their deep imprint on the society, but at least in Russia proper, as opposed to some of the other Soviet republics, it is largely cradle-to-grave propaganda that today has created an unquestioning and passive population.

The problem for Gorbachev in changing Soviet society is that 70 years of propaganda have worked too well. The average person either believes in the system that Moscow contemplates dismantling or can't imagine a better alternative. One doesn't have to worry about losing a job or an apartment, education is free, and medical care is free "in principle." If the quality of all of these ranges from bad to worse, now *perestroika* promises to improve it. The average person rarely encounters the harsher side of totalitarian rule. The Communist Party and the KGB are both considered prestigious places to work. The popular attitude toward censorship is "So what if you can't read Solzhenitsyn. He's an anti-Soviet writer anyway," or "Yes, *glasnost* is much needed, but don't use it to heap dirt onto our great Soviet history." Of course, people want food in their stores and are bitter about the empty shelves, but *perestroika* promises them that this will improve as well.

While it is clear that Gorbachev has roused the Kremlin into enthusiasm for sweeping reform, the provincial cities remain frozen in the torpor of the past. Soviet society was hammered into shape by Lenin and Stalin with great violence, and, like a resilient alloy forged at high temperatures, it is showing great resistance to change. The ideas, habits and dogmas of the past live on, confirming Karl Marx's words that "the tradition of all the dead generations weighs like a nightmare on the brain of the living." If Gorbachev knows, as he surely must, what is on the minds of his countrymen in cities like Tbilisi, Tashkent and Irkutsk, then the tradition of all the dead generations is the nightmare that today weighs upon him as he contemplates reforming the Soviet Union.

Gabriel Schoenfeld is a graduate student fellow at Harvard University's Russian Research Center.

Despite talk of economic reforms, the ordinary people in the provinces of the Soviet Union still suffer under an economy of ubiquitous scarcity.

AP photo

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ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIII, No. 4
December 13, 1988

INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST TEN MONTHS OF 1988

For the second time this year, the Soviets have neglected to publish industrial production figures. Thus, we have no information about production results for October, 1988. In response to a query we printed some time ago, Barbara Severin wrote us a note indicating that the missing statistical data ultimately appeared in an issue of *Vestnik Statistiki*. We will have to wait and see if the data for October subsequently appears in less traditional sources.

LIVESTOCK HERDS

The Soviet Union is still having trouble trying to build up its livestock herds. As the accompanying table indicates, the size in the decline of the cattle herd was greater this year than it was last year. In addition, the number of cows and sheep and goats continues to decline. The number of hogs has increased, although it is still below the November 1, 1986 figure. The only consistant success has been the increase in the chicken flock. This continues to be an area of important concern for the Soviet leadership.

LIVESTOCK HERDS

Herd	Jan-Nov 86	Jan-Nov 87	Jan-Nov 1987 as a % of 1986
Cattle	95.9	95.4	99.5%
Cows	29.2	28.8	98.6
Hogs	62.2	60.1	96.7
Sheep & Goats	118.3	117.6	99.4
Poultry	766.1	783.8	102.3

LIVESTOCK HERDS

Herd	Nov 1 1987	Nov 1 1988	Jan-Nov 1988 as a % of 1986
Cattle	95.4	94.0	98.5%
Cows	28.8	28.5	99.0
Hogs	60.1	60.2	100.2
Sheep & Goats	117.6	117.2	99.7
Poultry	783.8	799.4	102.0

ARDEN HOUSE

The Arden House program is taking shape and will be included in the January issue of the *Economic Newsletter*. We are delighted to announce that Ambassador Jack Matlock has indicated that he will be attending the conference again this year. We have several panels on business trends and prospects confirmed, as well as political restructuring, and foreign policy.

USSR Foreign Exchange Quotations

Currency	27 July	10 Aug	14 Sept	12 Oct	9 Nov
£100 Sterling	108.17	106.80	106.05	106.77	108.12
100 Aust. sch.	4.81	4.73	4.80	4.80	4.86
$100 US	62.06	63.21	62.58	62.54	60.86
100 Fr. Francs	10.02	9.87	9.94	9.89	10.00
1,000¥ Japanese	4.73	4.72	4.69	4.72	4.88
10,000 Italian Lire	4.57	4.51	4.52	4.51	4.59
100 Swiss Francs	40.66	39.87	40.06	39.72	40.77
100 Deutsche Marks	33.82	33.25	33.81	33.73	34.20

CORPORATE SPONSOR SEMINAR ON AGRICULTURE TO BE HELD FEBRUARY 13TH.

Enclosed is the program for our next corporate sponsor seminar. Widespread interest in the reform efforts in Soviet agriculture has prompted us to take another look at Gorbachev's most vexing policy area. With a less than satisfactory harvest anticipated for 1988 (the Soviets have not published a preliminary estimate of the 1988 harvest, contrary to normal practice), this seems like an ideal time to focus on Gorbachev's agriculture and trade policy.

We are still waiting for confirmations from one or two additional speakers, whose names will be listed in the January 1989 newsletter. We think this conference has the makings of a very interesting day.

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CENTERPIECE

The end of the Soviet name game?

By Nina Tumarkin
Special to the Globe

A recent issue of the Soviet weekly *Literaturnaya gazeta* reveals that the Soviet Culture Fund, an informal, unofficial body devoted to the protection of Soviet cultural treasures, has recently created a council on toponymy.

A toponym is a place name, and the council has resolved to send an open letter to the Supreme Soviet requesting that historical place names be given the status of "cultural monuments" and thus receive government protection.

The letter also asks the Supreme Soviet to draft a decree restoring the original names after Bolshevik luminaries. These include the cities of Kalinin, Gorky, Kuibyshev, Zhdanov, Kirov, and Voroshilovgrad. They used to be called, respectively, Tver, Nizhnyi Novgorod, Samara, Mariupol, Viatka, and Lugansk.

The signatories of the letter, consummate pragmatists who describe their list as "preliminary and not at all exhaustive," point out that names of several cities should be reinstituted simultaneously, since this would facilitate the printing of new maps and plane and train schedules.

Why did some Russian cities lose their names, and what is the meaning of the current movement to restore them?

St. Petersburg, which was in fact a German appellation, was renamed Petrograd (a russified form of "Peter's city") in a wave of nationalist feeling that swept Imperial Russia and the European continent at the beginning of World War I.

In 1921 the Bolsheviks began to consolidate their rule in a country devastated by World War I, two revolutions, and then a protracted civil war. Like other postrevolutionary regimes, they were unable to establish authority by responding to the actual needs of the social groups that had catapulted them into power: they did not give the workers factories nor did they bestow land upon the long-suffering Russian peasantry. Their business in the early years was to maintain and deepen control in the midst of anarchy. For this they relied heavily on political rituals and symbols of legitimacy, which were the heroes and leaders of the new state – not surprising in a land whose people had for centuries personified temporal and divine power in tsars, emperors, and saints.

Streets and squares, villages and towns were named after Lenin, Trotsky and Zinoviev during their lifetimes, and when Lenin died prematurely in 1924, Petrograd was renamed Leningrad in a frenzy of enthusiasm for the dead leader that swept the nation.

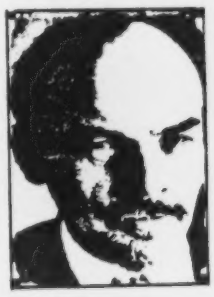
In the following decades, it became common practice to rename cities after political leaders, mostly but not always after their deaths, both to celebrate publicly the honored individual and as part of a state-building process, a shorthand way of thoroughly appropriating a geographical location. It was like sticking a red flag into the earth and saying "this is ours."

Tsaritsyn was renamed Stalingrad in 1923, when Stalin was still a relatively minor figure, and it was largely because of its name that Hitler made his ill-fated attempt to sieze that city in 1942. After Stalin died, his name was erased even as his busts and statues were toppled from pedestals throughout the country. But in the 1960s it was apparently inappropriate to restore tsarist names. Instead, the city received the politically neutral name Volgograd, after the mighty river on whose shores it is situated.

Now that Brezhnev is out of favor, institutions and places bearing his name have been rushing to get rid of it. The city of Brezhnev is once again called by its old name of Naverezhnye Chelny. A new mood of respect and even reverence for the past would make the adoption of any but that city's original name unthinkable. The toponymy council's letter reflects the current spirit, which regards the destruction of old place names as a violation of something sacred, analogous to the dynamiting of churches in the Stalin era.

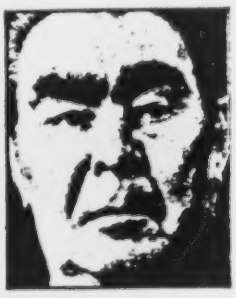
UPI file photo

Russian troops patrol tenements in Stalingrad after Germany was defeated in a battle for control of the area in 1942. The city, formerly named Tsaritsyn, was renamed Volgograd in the 1960s.



Lenin

Stalin



Brezhnev

For Americans, place names have always had a certain sanctity. Proud as we may be of our famous daughters and sons, we do *not* express that pride by renaming cities and towns in their honor. Brookline remained Brookline after President Kennedy's death, and would likely have stayed that way if Gov. Michael S. Dukakis, who was also born there, had been elected president.

Unstated rule in US

It looks as though our unstated toponymic rule is that schools, airports, parks, concert halls and other public institutions may bear the names of worthy citizens who have passed on, while cities and towns retain their original names forever. In the early decades of our history we were quick to name new towns and cities after our founding fathers, so we could draw on their authority in perpetuity. But our ancestors did not make it a practice to change the names of existing cities. Perhaps the idea was uncomfortably reminiscent of the military domination implicit in the act, say, of changing Nieuw Amsterdam to New York, as the British did when they replaced Dutch rule.

To many Americans the past Soviet practice of renaming cities, towns and villages seems like a taboo. Indeed, it feels vaguely Orwellian, as though in changing a city's name Soviet authorities were somehow tampering with an eternal truth. War is peace, freedom is slavery, Lugansk is Voroshilovgrad.

Why have we Americans made toponyms sacred? Names are, after all, only words. For one thing, no one profits financially from changing a place name. The money comes when one transforms the place itself by say, building a mall where an old neighborhood once stood. Besides, a name is a legacy; to replace a toponym is to say no to our ancestors. That is precisely what the postrevolutionary Bolshevik regime did with great deliberation in the first decades of its history; by the time Leonid Brezhnev died in 1982 places were named after him by sheer force of habit.

In years past dissidents in Leningrad, as an anti-Soviet act, used to affectionately call their city by the old Russian nickname "Peter." Today many Soviet people, are yearning to reforge their links with generations past. And most of them are not dissidents. Indeed, Raisa Gorbacheva is a member of the Soviet Culture Fund that has established the council on toponymy. The restoration of original toponyms is one way to symbolize a revived veneration for the past and a rejection of the classic postrevolutionary disdain of Russia's history.

Nina Tumarkin is professor of history at Wellesley College and a fellow at the Harvard Russian Research Center.

Gorbachev looks for continuity in relations with US

MADELEINE G. KALB

Gary Viskupic Illustration. © Op Art

Reagan was an unlikely partner but, once on board, an enthusiastic one. There are no such assurances about Bush.

An impatient Mikhail Gorbachev has seized the diplomatic initiative once again by inviting himself to the United States in early December to pay a farewell call on President Reagan and renew his acquaintance with President-elect Bush. The news broke the day before British Prime Minister Margaret Thatcher, Reagan's favorite ally, was due to arrive in Washington; West German Chancellor Helmut Kohl was already in town.

Gorbachev's message was clear: the Soviet leader, who had just entertained Kohl in Moscow and is scheduled to visit Thatcher in London in mid-December, wants to be in the same league as the key international players who automatically participate in the hail-and-farewell ceremonies of American presidential transitions. He wants to reinforce the legitimacy he won in a dramatic series of summit meetings with the most unlikely American partner possible – the staunchly anticommunist Reagan.

Limited success

With all its uncertainties and potential pitfalls at home, this taming of the president and the establishment of 1960s-style detente has been Gorbachev's only major foreign policy accomplishment so far, and he needs to solidify and institutionalize it.

Gorbachev's limited success has not been for lack of trying. He has been inventive, activist, flexible on all fronts. Yet most of his efforts have not yet borne fruit, and they have often produced unintended consequences. A tour d'horizon suggests a country encircled by disappointments and dangers.

Turning east, Gorbachev faces a dynamic, prosperous noncommunist Asia and a communist China less prosperous, but still a reproach to a moribund Soviet economy. He has appealed to noncommunist Asia with a peace offensive replete with proposals for nuclear-free zones and the removal of all military bases. But the most important player, Japan, with territorial claims against Moscow dating back to World War II, remains suspicious.

He has tried various overtures to China, suggesting a summit and making concessions on the three major issues the Chinese have insisted on as preconditions to a rapprochement: Afghanistan, Cambodia and their common border. He has spoken admiringly of Chinese economic progress, which he is eager to reproduce on the farms of the Soviet Union. China responds politely but without enthusiasm.

His most recent diplomatic destination was India – for decades, Moscow's only noncommunist ally – where he tried to reassure a government alarmed by his overtures to the Chinese.

The prospects in Asia may be disappointing; when he looks south, the view is alarming. The Soviet pullout from Afghanistan – if it continues on schedule – may mollify the Chinese and diminish the hostility of the world's Moslem population, but the near-decade of war has left a legacy of instability. Iran remains a profoundly troubling neighbor, eager to export its brand of Islamic fundamentalism into the Central Asian republics of the Soviet Union.

The proximity of Turkey has always guaranteed Armenia's allegiance to its Russian protector, but long-dormant conflict between Christian Armenians and Moslem Azerbaijanis has flared into unprecedented rioting within the Soviet Union and created strains between both ethnic groups and Moscow.

To the west, in the troubled borderlands, there are rumbles of resurgent nationalism in the Ukraine and startling assertions of autonomy in the three Baltic republics, which have always felt themselves culturally akin to the West. Gorbachev has permitted them a certain amount of leeway, hoping to tap their economic efficiency as a model and inspiration for perestroika in the rest of the country.

The risks of this policy are magnified beyond Soviet borders in Eastern Europe, where Gorbachev has encouraged each country to follow its own socialist path. Eager reformers may wear "I love Gorby" buttons, but the lingering question remains: how far can Poland or Hungary or Czechoslovakia go before the reins are pulled tight again? The dilemma is tougher for Gorbachev than for any previous Soviet leader because his reputation rides on continuing reform.

Gorbachev's greatest success has been in Western Europe, where his detente with the Reagan administration has apparently convinced the population that the Cold War is over and further defense spending is unnecessary. Which brings us full circle, back to the presidential transition.

Contradictory signs

Reagan was an unlikely partner but, once on board, an enthusiastic one. There are no such assurances about Bush. During the campaign the signs were contradictory: on the one hand, a less fervent commitment to SDI, on the other, a tougher, more suspicious attitude toward the Soviet Union. That may have been campaign rhetoric, designed to appeal to the conservative white male voter – but Gorbachev did not want to take any chances.

So, while Bush talked of an orderly process – after he took office in January, Secretary of State James Baker would meet with the NATO allies and then with Soviet Foreign Minister Eduard Shevardnadse, and only then would Bush meet with the Soviet president – Gorbachev decided to speed things up. He wants a laying on of hands while Reagan is still there, even though conservative observers regard the arrangement as highly improper.

Although the president and the president-elect regard the meeting as more social than substantive, Gorbachev has a full agenda. He is not only seeking diplomatic respectability; he is hoping for a steady stream of Western credits and technology to smooth the path of perestroika; he wants to push ahead with arms-control agreements that will free up funds now committed to his military budget. But most of all he needs an assurance of stability and continuity in US-Soviet relations so that he can concentrate on the daunting problems he faces at home.

Madeleine G. Kalb is a fellow of the Russian Research Center at Harvard University.

HARVARD UNIVERSITY -- RUSSIAN RESEARCH CENTER

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We also have special **anniversary tee shirts** (crimson, in adult sizes M and L) dedicated to "40 Years of Glasnost'" (1948-1988) at the RRC, and antique white **tote bags** with the same logo.

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Sizes

Sweatshirts come in adult sizes only.
Adult-size tee shirts are men's sizes: small (34-36), medium (38-40), large (42-44), X-large (46-48).
Infant size is 12 mos.; toddlers' sizes are 2 (3 yrs.), 3 (4 yrs.), 4 (5 yrs.).
Youth sizes are S, 6/8 (5-8 yrs.); M, 10/12 (9-12 yrs.); and L, 14/16 (13-15 yrs.).

**********NOTE: PLEASE READ BEFORE ORDERING**********

Please include $2.00 postage for EACH ITEM ordered (only $1/item for infants', toddlers', & youth items); i.e., for one shirt add $2.00; for three, add $6.00.
Checks should be made out to Harvard University. Please allow 2-4 weeks for delivery.

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	TEE SHIRTS ($10)		CREWNECK SWEATSHIRTS ($15)		HOODED SWEATSHIRTS ($22)	
	Crimson	White	Crimson	White	Crimson	White
Small	_____	_____	_____	_____	_____	_____
Medium	_____	_____	_____	_____	_____	_____
Large	_____	_____	_____	_____	_____	_____
X-Large	_____	_____	_____	_____	_____	_____

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Size 2	_____	6/8	_____	_____	12 mo. only	_____
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SILK TIE ($25.00) _____ SILK SCARF ($30.00) _____ TOTE BAG ($22.00) _____

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ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIII, No. 5
January 13, 1989

No Report for the First 11 Months of 1988

As has happened twice before in 1988, the Soviet Union did not publish the economic results for November in its general press. While the publication of these figures is a long-standing tradition, and the government continues to publish quarterly figures, the authorities apparently have restricted this data for 1988 to the publications of the State Committee for Statistics, the official statistical organization of the Soviet Union. In years past when these figures disappeared, it was usually because they were not satisfactory. There is some reason to believe this is the case at the present time. It is perhaps significant that they have not released estimates of the grain harvest, figures which are usually reported at the very latest by November of the harvest year. We know from various sources that the harvest will be at least 30 million tons below expectations and conceivably more.

While the formal All-Union report is not available to date, there is some information to be found about economic developments in the country. There is a general report of economic results for the month of November in the Russian republic (RSFSR), the largest of the Soviet republics. These statistics, which presumably indicate similar trends for the country as a whole, are rather disappointing. While they show that national income has increased by 4% during the first eleven months of 1988 when compared to 1987, the official report also says "On the whole our performance was better than last year's, but appreciably poorer than planned."

What seems of particular concern is that some of the main industries in the Soviet Union are encountering serious difficulties. For example, the official report indiciates that the machine tool industry in the Russian republic is "particularly strained." One out of two enterprises has incurred a debt. At a time when enterprises are being told they must meet their debt obligations or go bankrupt, this could have serious implications. There are similar difficulties, although not of the same magnitude, in the coal and timber industries.

While many of these problems are in the heavy industrial sector, it appears that there are even more serious problems in the consumer sector, problems which are a direct reflection and consequence of the difficulties in the industrial sector. There seems to be a growing disproportion between increases in income and increases in the availability of goods. Inevitably this means an unanticipated increase in savings, and growing inflationary pressure. The official report for the RSFSR indicates that monetary incomes in the Russian republic rose over nine percent during the first eleven months of 1988, compared to the same period in 1987, but this was double the planned rate. At the same time, expenditures for the purchase of goods rose seven percent, one percent below what was anticipated. This leads to shortages of goods. As the report indicates, one-third of the meat sold in the Russian republic is sold on a coupon rationing system. Moreover, potato and vegetable supplies are lower than they were last year and sales of these products are nineteen percent below the plan. The report also indicates that other consumer goods are in short supply and indeed, in shorter supply than had been the case in previous months. According to the report, "it is difficult to buy consumer goods and tape recorders, and almost impossible to buy video equipment. Refrigerators and washing machines seem to have vanished."

The suggestion is that some of these goods are now being exported as enterprises are being allowed to keep a percentage of the foreign export proceeds they earn from exported goods. Inevitably domestic prices have begun to increase and it is stated in the report that textile prices have risen six to eight percent and leather footwear by fifteen percent. On top of everything else, apartment construction, which had increased rapidly in 1986 and 1987, was about 3% lower in 1988 and only two-thirds of the planned target.

It is not surprising, therefore, that we read reports of a run on gold and other jewelry supplies. For months the Soviets have been talking about price reform and articles recently have begun to appear warning that this discussion could create minor panics. The authors of these articles are concerned that pressures will grow as

people begin to see the price reform taking shape. Even though the wholesale price reform is not due to begin until January 1990, the proposed fees are being published and consumers assume that this will mean either an increase in retail prices or an increasing subsidization of prices, which would, of course, increase the size of the national budget deficit. It is being reported that wholesale electric prices for coal will rise ninety percent as of the first of next year. As a result, agricultural consumers will face a three-fold increase in electricity costs. Under these circumstances, people traditionally begin to hoard real goods and if they cannot find jewelry, they will buy appliances.

The implications of the price reform process for the Soviet Union are very serious. Because Mikhail Gorbachev has insisted that the price reform will not lead to an increase in prices for consumers, the only way to achieve this is to provide subsidies between the wholesale and retail levels. But as noted earlier, this ultimately means that there will have to be an increase in the budget deficit. This, of course, adds to inflationary pressure. It is not a happy situation and accounts as much as anything for the very sharp decline of public opinion in support of the process of economic *perestroika*.

Arden House to be held March 31 - April 2

The program for the thirteenth annual Arden House Conference on American-Soviet Relations is now in the final stages of completion. Organized in a series of panel discussions, this year's conference will focus on the impact of a new American administration on various aspects of Soviet-American relations. Topics this year include a look at internal political restructuring, the impact of *perestroika* and *glasnost* on Soviet foreign policy developments, and economic reform, all important issues deserving serious attention. The Soviet foreign trade outlook will be assessed by representatives from Western nations, including the United States, Federal Republic of Germany, and Great Britain.

Our congressional panel now includes Congressman Peter Smith (republican from Vermont) and Senator John Heinz (republican from Pennsylvania). Senator Heinz's attendance at this point is tentative subject to the demands of his office. A special panel of representatives of the new Bush administration will provide us with some insight into the policy objectives of the next administration. Thus far we have high level speakers from the Departments of Defense, State, and Commerce. The final panel on Sunday will feature representatives of American companies operating in the Soviet Union, with Moscow representatives from General Electric, Wang Computers, and Combustion Engineering.

We are very pleased to announce that the Honorable Jack Matlock, U.S. ambassador to the U.S.S.R., has indicated he will be able to attend again this year and will help us put the issues under consideration into a framework of overall Sovet-American relations under a new administration.

The final program will be mailed out as soon as we hear from one or two more members of the U.S. Congress. In the meantime, we have enclosed an application form with this newsletter for those subscribers who want to register early to assure themselves of a reservation.

Corporate Sponsor Seminar: "Soviet Agriculture: The Impact of Reform"

The program for our conference on Soviet agriculture is enclosed with this newsletter. Because the topic of agriculture is such an important one, we are making a special effort to bring over Soviet speakers to discuss the reform process and the results thus far achieved. Vladimir Tikhonov, an outstanding writer on agriculture and a member of the All-Union V.I. Lenin Academy of Agricultural Sciences, has indicated that he is eager to come. Alexander Shakai, of the Institute for Foreign Economic Relations of the Soviet Union, has also indicated that he would like to accept our invitation to appear. Needless to say, the participation of both is subject to their receipt of visas, but we are quite hopeful they will be able toparticipate. We also have a tentative agreement to speak from the Soviet agricultural attache in Washington, Dr. Nikolai G. Pervov.

In addition to an examination of the reforms as they exist on paper, Dr. Tikhonov and Mr. Fred Crook of the U.S. Department of Agriculture will look at the reform process in action, in case studies of the Soviet Union and China. Marshall Goldman will then compare the two systems and suggest lessons to be learned.

Export prospects will be discussed by Mr. Karl-Hugo Schlunk, the president of Alfred C. Toepfer International, Dr. Shakai, and Mr. John Kingery, the Associate General Counsel of the Office of the U.S. Trade Representative. Mr. Kingery was the chief U.S. negotiator in the most recent Soviet-American grain sales.

The final panel will examine joint ventures and other activities in the food processing and chemical industries and will feature Mr. Perry Dixon, Director of Economic Research for Archer Daniels Midland, and Mr. Nha Hoang, Director, International of the FMC Corporation.

An application form and final program are enclosed.

USSR Foreign Exchange Quotations

Currency	14 Sept	12 Oct	9 Nov	14 Dec
£100 Sterling	106.05	106.77	108.12	110.59
100 Aust. sch.	4.80	4.80	4.86	4.90
$100 US	62.58	62.54	60.86	60.00
100 Fr. Francs	9.94	9.89	10.00	10.08
1,000¥ Japanese	4.69	4.72	4.88	4.88
10,000 Italian Lire	4.52	4.51	4.59	4.67
100 Swiss Francs	40.06	39.72	40.77	40.92
100 Deutsche Marks	33.81	33.73	34.20	34.47

Gorbachev Gambles That Success Is Measured in Plumbing, Not Missiles

By MARSHALL I. GOLDMAN

What a Christmas present: Swords into plowshares, tanks into tractors, missiles into microcomputers, planes into plumbing.

Mikhail S. Gorbachev had something for almost everyone last week in New York. In a single speech, Gorbachev sought to solve what appeared to be the near-intractable dispute between East and West while at the same time offering some needed support for *perestroika* and his effort to revitalize the Soviet Union's economy. Others have discussed extensively the international effect. But the internal implications in some ways may be equally far-reaching.

From the day he assumed the post of general secretary in March, 1985, Gorbachev's obsessive concern has been to revitalize his country's economy. Almost everything else is designed in some way or another to facilitate the realization of that goal. Thus, whatever their intrinsic merits, *glasnost* and democratization are intended to win popular support for his economic-reform effort. By calling for criticism of waste, incompetence and corruption, Gorbachev hopes to show Soviet workers that society will not tolerate the type of favoritism and elitism that characterized so much of the Brezhnev era.

By reaching out to the United States and President Reagan, Gorbachev has sought to bring about the relaxation of tensions so that he can proceed to divert resources from the military sector. He realizes that as long as society spends upwards of 15% of its gross national product on military expenditures, it will be unable to satisfy the needs of its population for consumer goods. After a time, that is likely to lead to a decline in morale and an unwillingness to work. The result is sure to be economic deterioration and stagnation.

While the progress made in reaching a treaty on intermediate-range nuclear forces brought about an astonishing change in the international climate, those of us on the outside kept asking for some tangible sign that the new environment would produce a Soviet switch from guns to butter.

That is why Gorbachev's blockbuster announcement of a unilateral cut of 500,000 Soviet troops was so ingenious. Such a large contraction should be able to provide doubters in the West with concrete evidence that his desire to reduce Soviet forces is real.

Gorbachev's new program should also bring him important benefits at home. The Soviet people already know, as one of the country's leading economic analysts reported in late October, that their real standard of living has dropped for the last two years. Now Gorbachev has promised that in the next year two or three weapons-producing factories will be converted to the production of civilian goods. Soviet officials have already promised that 40% of the plumbing that they plan to install in new housing over the next seven years will be made by factories that heretofore have been producing weapons. Similarly, the Medium Machine Building Ministry, the Soviet Union's prime defense contractor, has announced that it will assume responsibility for producing a new type of dairy-processing equipment. Such products go to the heart of the needs of the people.

If he can pull it off, the potential benefits should win favor for Gorbachev's efforts and additional time for him to show that his program can produce actual results.

But Gorbachev is savvy enough to know that unilateral action of this sort also comes at a cost. Just because he orders military factories to produce consumer goods does not mean that they will do it, particularly if it means that the managers and workers will have to work harder and take on new and unaccustomed risks. Nor does it mean that the quality of the new products will necessarily be an improvement over the existing output. Nor will new products alone be enough. The Soviet Union also needs an expanded infrastructure. Thus, if automobile output is expanded, at some point the Soviets also will have to increase highway construction, at present only 15% of ours.

There is a second risk that Gorbachev will also have to encounter: the many generals who are distressed by what they see as his willingness to disarm the Soviet Union. That, more than his poor health, must explain why Marshal Sergei Akhromeyev, the chief of staff of the armed forces, decided to resign at the same time that Gorbachev made his initiative public.

Equally haunting is the fact that Gorbachev is not the first Soviet leader to take on the Soviet military-industrial complex. Nikita S. Khrushchev also announced a large-scale demobilization of the military. By doing so he lost the support of the generals and, eventually, his job.

That Gorbachev should nonetheless move as he has done suggests not only that he is a bold leader but also that he is willing to gamble that he needs popular support more than military support, and plumbing more than missiles.

Los Angeles Times
Tuesday, December 13, 1988

THE SOVIET UNION

The ruble as barrier to Soviet free trade

Gorbachev hopes to deal USSR into global market

By Marshall I. Goldman

Soviet President Mikhail Gorbachev's goal of making the Soviet Union more competitive in the world – and especially in the American market – will not be easily accomplished. But after some delay, he at least seems to be heading in the right direction. Abandoning many sacred dogmas from the past, the Soviet Union announced that all Soviet enterprises beginning in April will be able to engage in exporting and importing. Heretofore, trade was a monopoly of the Ministry of Foreign Trade even though more recently it was extended to approximately 100 large enterprises and ministries.

In an equally far-reaching step, Soviet authorities announced that foreign businessmen henceforth will be allowed to hold unlimited ownership in joint ventures or subsidiaries they establish in the Soviet Union. The Soviets have also declared that they will establish a special economic zone for foreign business operations. The zone will be in the Soviet Far East along the Pacific coast. As in China, joint ventures set up in the Soviet special economic zone will have a tax free holiday during the first three years of operation and lower rates of taxation thereafter.

To appreciate how radical these measures are, we should remember that, for nearly 60 years, the Soviets have boasted of how they created a state monopoly in foreign trade and banned all foreign exploitation of Soviet workers. With these changes, they have acknowledged that this monopoly and isolation have been counterproductive.

One of Gorbachev's main goals today is to bring Soviet industry up to world standards. Encouraging Soviet enterprises to export or import is one way to accomplish this, as is the decision to reduce the role of central planning, heretofore another cherished Soviet practice. But Gorbachev and his advisers realize that diminishing the role of central planning and authorizing Soviet enterprises to import and export for themselves will be empty gestures unless the Soviet ruble becomes convertible. As of now, it is illegal to take rubles in or out of the Soviet Union, and the Soviet government closely regulates the rate of exchange of rubles for hard currency. No wonder that so far only about a hundred foreign businessmen have been willing to set up joint ventures in the Soviet Union. What can they do with the rubles they earn, especially if they are unable to buy much with those rubles inside the Soviet Union itself? Therefore, if they are to attract more businesses, sooner or later the Soviets will have to make the ruble convertible and, given their recent announcement, it is clear that Gorbachev is trying to make it sooner.

Recognizing their dilemma, the Soviets have announced that they plan to facilitate the conversion of rubles into Western and Japanese currencies. But this will not happen overnight. Convertibility will only occur when enough foreigners decide they want the ruble because they find it advantageous to buy Soviet products. True, there are some now who want to buy Soviet goods, especially oil and natural gas, but not enough to offset the many more inside the Soviet Union who would like to buy foreign goods.

This lack of interest in buying Soviet goods shows up dramatically in the trade statistics. For example, machinery accounts for only 2 percent of what West Germany, the Soviets major noncommunist trading partner, buys from the Soviet Union, while oil and natural gas constitute 80 percent of the total. And Soviet machinery imports from the United States were also only 2 percent of our total purchases from the Soviets.

AFP photo

Soviet leader Mikhail Gorbachev

There are several ways to make Soviet produced products more desirable. One way is to improve their quality. That is one of the purposes of Gorbachev's domestic reforms we have come to call *perestroika*. Another way is to reduce the price of what is being sold. That would mean making rubles more readily available to foreigners and at a cheaper price. To accomplish that, the Soviets have declared that, within a year, the ruble's declared value, in terms of the dollar, would be cut in half, and by even more than that in two years. In effect, the Soviets are planning to devalue the ruble. To sustain the process and make it meaningful, however, they have also decided to establish an ongoing exchange market where those who want rubles can bargain with those with rubles to sell. For the time being, at least, all this will be supervised by the banking authorities. But the creation of such an exchange is a prerequisite for making this an ongoing process and providing for the play of market forces.

Again, such measures constitute an unusually radical departure from past Soviet practice. The Soviets in the past have been especially proud to claim that because the ruble has not been convertible, it has been insulated from fluctuations in the world currency markets. Before the Gorbachev era, most Soviet authorities, as well as some American economists, were insistent that we would never see an increased convertibility of the ruble. Though they may still be right, it does look like Gorbachev is doing his best to prove them wrong.

The move to improve convertibility is an important step in the right direction, but it may not be such good news for some American businessmen. A cheaper ruble is likely to mean fewer purchases of Western equipment by Soviet enterprises. Devaluation always makes foreign products and imports more expensive. At the same time, however, while it should make exports of Soviet made products cheaper and therefore more attractive, it would also mean that profits earned in rubles from such ventures will be less valuable. The beneficiaries of such a move will be importers of Soviet goods, assuming, of course, foreigners are allowed access to these cheaper and presumably convertible rubles. For example, by 1990, Soviet vodka prices should be half what they are now. A devaluation of 50 percent or more is unusually large.

It is unclear whether foreign buyers will be able to take advantage of such cheap rubles. This devaluation may only apply to Soviet holders of rubles. Even so, this suggests that the black market price for rubles on Moscow streets is closer to reality than the official price established by Soviet banks.

While all these policy and ideological reversals are important steps in making Soviet products more competitive, it will still take some time before the internal changes lead to substantial and qualitative changes in most products. In addition, most manufactured goods the Soviets want to sell to the United States are still subject to very high tariffs. Because of past Soviet human rights policies and restrictions on emigration, the US Congress passed the Jackson-Vanek Amendment in 1975. This denies Soviet products most-favored-nation status. As a consequence, importers of most Soviet products must pay tariffs that were passed in the protectionist era of the 1930s.

Given that since Gorbachev came to power the human rights and emigration situation in the Soviet Union has also undergone radical change, it would seem that perhaps the United States should also reconsider its policy regarding the Jackson-Vanek Amendment. There is not much the United States can do to help Gorbachev with his problems at home. It could, however, help in a small way by showing that Gorbachev's policies are appreciated in the outside world. Thus President-elect George Bush, as an introductory gesture, should issue a waiver of the Jackson-Vanek Amendment. At best, that would yield only a slight increase in the import of Soviet products, but it would be a sign that we applaud his efforts to bring the Soviet economy into the world economy, and that we also appreciate his human rights policies.

Marshall I. Goldman, associate director of Harvard's Russian Research Center, is an economics professor at Wellesley College.

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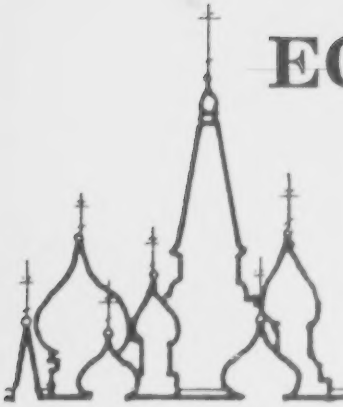

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIII, No. 6
February 9, 1989

ECONOMIC RESULTS FOR 1988

Product	1988	1988 as a % of 1987
Electricity (billion kw hrs)	1705	102%
Petroleum (million tons)	624	100
Natural Gas (billion meters³)	770	106
Coal (million tons)	772	102
Steel (million tons)	163	100.7
Fertilizer (million tons)	37.1	102
Metal-cutting tools (thousand units)	22.3	106
Robots	*	*
Computer tech. (billion rubles)	6.5	117
Tractors (million hp)	*	*
Paper (million tons)	6.3	102
Cement (million tons)	139	102
Meat (million tons)	12.7	104
Margarine (million tons)	1.5	97
Watches (million units)	73.5	104
Radios (million units)	8.0	98
TV sets (million units)	9.6	106
Automobiles (million units)	1.3	95

* not published

LIVESTOCK HERDS

Herd	As of 1/1/88	As of 1/1/89	1989 as a % of 1988
Cattle	120.6	118.9	98.5%
Cows	42.0	41.5	98.8
Hogs	77.4	77.7	100.4
Sheep Goats	147.3	145.9	99.

Production Results for 1988

As we have been reporting during the course of the year, the economy in 1988 had its problems. The main difficulty was for the consumer. Many indices for specific industries did show an increase over 1987, some of them in fact grew even faster than 1987, but because of growing inflation, something that was not a problem until 1987, the perception of the consumer is that things have deteriorated. Lines are longer and complaints are more frequent.

The economic report for the year is one of the most extensive that the Soviets have released. It provides more information and faces up to many of the difficulties. However, not all. For example, from information released earlier in the course of the year, we know that housing construction fell from what it had been in 1987. However, the Soviets masked that fact, as they so often do, by showing that the results of 1988 are better than they were over a two-year period. *Glasnost'*, in other words, is still not complete.

One of the striking features about the very lengthy report is that consumer goods and consumer well-being are given top priority. It is the main focus for much of the first half of the report. There is also a general discussion about changes in the economic environment. For example, the official report ack-

nowledges that people were poorly supplied with food. They also report that one million people were reassigned in their jobs and that two million people are working either privately or in cooperatives. The Soviets have also set up quasi-employment offices in some of their cities.

Some of their major problems are related to the fact that salaries increased faster than production. For example, the Soviets report that the growth in money incomes was higher than the sum of the increase in money incomes of the two preceding years, that is, 1987 and 1986. They also provided some information about poverty. There were three million people in urban areas in the Soviet Union who received wages that were lower than 80 rubles per month. For comparison, the average wage was 217 rubles. The per capita income was estimated to be approximately 152 rubles per month for urban workers, and 121 rubles per month for peasants. The number of people receiving per capita income of 75 rubles per month fell from 18% of the total in 1985 to 14% in 1988.

The Soviets also devoted serious attention to price increases. Prices rose on many products, but actually fell on some, particularly in the collective farm markets of the Baltic states. There is a lengthy discussion about an unexpected result of the new reforms which gave more power to the enterprises in determining their product mix. Enterprises moved towards the production of more expensive goods, reducing the production of cheaper goods for which there is a smaller margin.

There is also a report about foreign trade activity. Exports for the year rose 4% in volume, but in terms of revenue collected, fell by 1.9%. The opposite effect was observed on imports. Prices rose on imports by 6.5%, whereas the volume dropped by 1%.

Some specific production indices worthy of note include the fact that meat production rose 4%, whereas margarine fell by 3%, as did sugar, which fell by 12%, and bread production, which fell by 3%. This is one of the few times that the production of bread has diminished, obviously a very critical consideration. This also reflects an increasing number of complaints about bread, which has always been regarded as the most vital staple in the Soviet Union. Other items of concern include the fact that the grain harvest was only 195 million tons compared to 211 in 1987. Similarly, the harvest of potatoes was only 63 million tons compared to 78 million tons in 1987. The fruit harvest was 8.9 million tons compared to 10.4 in 1987, and the harvest of grapes fell to 5.6 in the aftermath of the crackdown on alcohol production compared to 7.1 in 1987.

As far as the heavy industrial products are concerned, while petroleum production was constant, again 624 million tons, steel production barely increased by a fraction of 1%. Most other industrial products did show some increase.

Because of the poor harvest, the Soviets report that they had to import 36 million tons of grain, although most of it was feed grain.

It is also worthy of note that as of the end of the year, there were 191 foreign joint ventures, including 27 with socialist country partners.

Finally, as the figures show, the herd of cattle, cows, sheep and goats diminished from 1987 levels, continuing the decline from 1986. In other words, the livestock herds diminished two years in a row. The one exception to that, of course, was the chicken flock, for which the Soviets for some reason do not publish figures for January 1, 1989, and the pig herd, which increased a fraction.

Foreign Trade Statistics for The First Three Quarters of 1988

The Soviets have released foreign trade statistics for 1988. They show an increase in exports by about a half billion rubles to the hard currency bloc, but an even larger increase in imports from the same group of countries. The main reason for the big change is the fact that the Soviets imported about 600 million rubles more from the United States than they did in the first three quarters of 1987. For the most part that was grain. As we saw in the report of the industrial figures, the Soviets reported that they imported 36 million tons of grain during the calendar year. Because of the grain imports, the United States became the third largest exporter to the Soviet Union during the first three quarters of 1988, led only by West Germany and Japan. Other notable changes included the fact that exports from West Germany

rose by 400 million rubles, while those from Italy dropped by about 200.

As a result primarily of the increase in grain imports, the Soviets ended up with a trade deficit of 1.2 billion rubles for the first three quarters of the year.

Corporate Sponsor Seminar: "Soviet Agriculture: The Impact of Reform"

Vladimir Tikhonov, an outstanding writer on agriculture, a member of the All-Union V.I. Lenin Academy of Agricultural Sciences, and one of Gorbachev's two main advisors on agriculture will be our special guest for our third Corporate Sponsor Seminar of 1988-89.

In addition to an examination of the reforms as they exist on paper, Dr. Tikhonov and Mr. Fred Crook of the U.S. Department of Agriculture will look at the reform process in action, in case studies of the Soviet Union and China. Marshall Goldman will then compare the two systems and suggest lessons to be learned.

Export prospects will be discussed by Mr. Karl-Hugo Schlunk, the president of Alfred C. Toepfer International, and Mr. John Kingery, the Associate General Counsel of the Office of the U.S. Trade Representative. Mr. Kingery was the chief U.S. legal counsel in the most recent Soviet-American grain sales.

The final panel will examine joint ventures and other activities in the food processing and chemical industries and will feature Mr. Jack Reed, Vice President, International for Archer Daniels Midland, and Mr. Nha Hoang, Director, International of the FMC Corporation.

The opinions expressed in the Economic Newsletter are those of the author and not the Russian Research Center unless explicitely stated as such.

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Arden House to be held March 31 - April 2

The program for the thirteenth annual Arden House Conference on American-Soviet Relations is now in the final stages of completion. Organized in a series of panel discussions, this year's conference will focus on the impact of a new American administration on various aspects of Soviet-American relations. Topics this year include a look at internal political restructuring, the impact of *perestroika* and *glasnost* on Soviet foreign policy developments, and economic reform, all important issues deserving serious attention. The Soviet foreign trade outlook will be assessed by representatives from Western nations, including the United States, Federal Republic of Germany, and Great Britain.

Our congressional panel now includes Congressman Peter Smith. We anticipate the addition of others as they work out their congressional calendars. A special panel of representatives of the new Bush administration will provide us with some insight into the policy objectives of the next administration. Thus far we have high level speakers from the Departments of Defense, State, and Commerce. The final panel on Sunday will feature representatives of American companies operating in the Soviet Union, with Moscow representatives from General Electric, Wang.

A copy of the program and an application form are enclosed for your use. If you have any questions regarding the conference, please do not hesitate to contact Marshall Goldman or Catherine Reed at (617) 495-4485. Our fax number is (617) 495-8319.

BALANCE OF TRADE - 1st NINE MONTHS OF 1982 - 1987 (Million Rubles)

	EXPORTS FROM THE USSR							IMPORTS TO THE USSR						
	1982	1983	1984	1985	1986	1987	1988	1982	1983	1984	1985	1986	1987	1988
Austria	493	413	563	603	415	268	328	387	622	656	615	638	428	497
Belgium	774	741	902	658	444	569	587	421	449	380	425	337	274	289
Great Brit.	622	802	974	833	943	1158	1253	531	495	587	563	407	394	415
Greece	441	343	416	408	156	176	252	100	128	87	104	46	32	61
Denmark	268	221	275	213	105	91	87	53	54	73	76	113	59	77
Spain	106	229	224	148	81	334	437	127	182	227	291	130	122	114
Italy	2209	2152	2388	1799	1110	1271	1283	874	1119	983	970	1119	1250	1077
Neth.	1175	1393	1243	770	425	591	488	282	410	188	227	181	185	194
Norway	59	59	78	91	41	51	50	56	75	60	51	55	48	61
Germany	2982	2498	3478	3026	2197	1780	1837	2201	2685	2558	2400	2268	2037	2451
France	1664	1768	1695	1554	1116	1093	1150	958	1353	1246	1291	860	851	789
Switz.	326	394	290	244	235	239	281	311	274	293	384	360	404	636
Sweden	289	491	441	392	213	301	309	283	191	184	240	190	171	182
Japan	556	579	633	695	721	690	884	2129	1707	1534	1849	1755	1234	1464
Subtotal	11964	12083	13600	11026	8202	8612	9226	8713	9744	9056	9486	8459	7489	8307
Sub-Bal. of Trade								+3251	+2339	+4544	+1540	-257	+1123	+919
Argentina	25	19	20	44	51	31	16	1133	1153	983	1114	172	374	331
U.S.A.	112	171	210	228	216	197	223	1811	1037	1734	1927	997	747	1334
Canada	17	22	15	13	9	11	11	945	990	971	466	383	327	352
Australia	12	5	12	12	7	10	9	438	321	365	446	446	253	240
New Zealand	5	1	6	3	3	4	8	178	145	38	61	3	58	71
Brazil	122	85	93	48	25	43	14	356	429	396	300	200	190	138
Total	12257	12386	13956	11374	8513	8908	9507	13574	13819	13543	13800	10660	9438	10773
Balance of Trade								-1317	-1433	+413	-2426	-2147	-530	-1266
Finland	1735	1744	1833	1588	1153	1292	1170	2021	2043	1747	1914	1677	1530	1613
	13992	14130	14789	12962	9666	10200	10677	15595	15862	15290	15714	12337	10968	12386
								-1600	-1732	-501	-2752	-2671	-768	-1709

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ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIII, No. 7
March 9, 1989

Economic Results for January 1989

Following the practice adopted in mid-1988, the Soviet statistical authorities have again decided not to publish the monthly statistics. Apparently they are available internally in the statistical agencies, but published only on a quarterly basis. If anyone knows of other sources for this material, we would be very grateful if you would help us find them. There is nothing to indicate, however, any signficant change in the direction of the production figures. Moreover, complaints continue to be published about shortages of consumer goods.

Soviet Trade With Eastern Europe During the First Nine Months of 1988

What is particularly striking about the Soviet Union's trade with Eastern Europe during the first three quarters of 1988 was that the Soviets moved from being a net exporter to being a substantial net importer. This clearly is a consequence of *perestroika* and the Soviets' effort to obtain more machinery from Eastern Europe. Whereas Soviet exports to Eastern Europe dropped in ruble value by about 1 billion rubles, their imports from the bloc rose by about 400 million rubles. This is the first time this has happened in almost a decade. The only country to which the Soviet Union exports more to than it imports from is East Germany, and there it is only a difference of 5 million rubles which may be nothing more than a statistical blip.

There is indeed the implication that a continuation of this situation will lead to difficulties for the East Europeans. Undoubtedly, part of the explanation is due to the fact that the prices for petroleum and natural gas have dropped, but the fact that the Soviet Union has increased its imports in this way also suggests that the East Europeans are being pressured to supply more to the Soviet Union, and that clearly reduces the availability of East European goods for export to the hard currency bloc.

13th Annual Arden House Conference on American-Soviet Relations

Arden House is scheduled for March 31 - April 2, 1989. The conference weekend is fast approaching and while there are still a few seats available, if you are planning to register, do so without delay. The program promises to provide valuable insights into the new administration's approach toward the Soviet Union. We are very pleased with the panelists selected and are happy to note that Congressmen Aspin and Smith have indicated they expect to be in attendance for the entire weekend.

We are happy to accept registrations via fax. Our number is (617) 495-8319. If you have questions regarding the conference, contact Marshall Goldman or Catherine Reed at the Russian Research Center, (617) 495-4038.

For those who have already registered, please note that we will contact individuals who have signed up for the LaGuardia/Eastern Airlines bus with alternate arrangements, should the strike against Eastern Airlines continue. It is most likely that we would simply switch to the Pan Am shuttle, and we will let you know more as the date of the conference nears. Should the strike be settled, we will maintain the current arrangements.

We look forward to seeing you there.

The opinions expressed in this publication are those of the author and not the editors or the RRC unless otherwise indicated. RRC©1989

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE FOR THE 1ST NINE MONTHS OF 1981-1988

(in million rubles)

	Exports from U.S.S.R.								Imports to U.S.S.R.							
	1981	1982	1983	1984	1985	1986	1987	1988	1981	1982	1983	1984	1985	1986	1987	1988
Bulgaria	3225	3546	4141	4661	4788	4842	4644	4604	2751	3245	3720	4122	4425	4442	4856	4885
Czecho-slovakia	3108	3728	4270	4948	5002	5116	5032	4711	3060	3513	4018	4422	4806	4778	5035	5039
GDR	4037	4587	4992	5385	5619	5852	5582	5173	3861	4270	4879	5576	5619	5228	5173	5168
Hungary	2445	2711	2951	3298	3318	3486	3398	3265	2413	2710	2957	3178	3513	3600	3766	3598
Poland	3667	3581	3868	4450	4804	5091	4778	4592	2419	2882	3485	3843	3960	4316	4355	4936
Romania	1111	1013	1199	1352	1351	2062	1819	1766	1237	1323	1280	1340	1657	1859	1729	1771
	17593	19166	21421	24094	24882	26449	25253	24111	15741	17933	20339	22481	23980	24223	24914	25397
Balance of Trade	+1852	+1283	+1082	+1613	+902	+2226	+339	-1286								

Los Angeles Times
Book Review

"In the noble West, where I used to live before I reached puberty, it was manly and virtuous not to tell people about yourself...But not in Mississippi. In the South, you were supposed to tell them. They held it against you if you didn't, because it meant you were trying to hide something." Page 9

The Reds Are in the Red

THE COMING SOVIET CRASH
Gorbachev's Desperate Pursuit of Credit in Western Financial Markets
by Judy Shelton
(The Free Press: $22.50; 238 pp.)

Reviewed by Marshall I. Goldman

It is hard to disagree with Judy Shelton's conclusion when she writes that those who "aspire to become reputable members of the international financial community and the global economy . . . should not come begging for handouts. If they want to be accepted as trading partners, they should work to have something worthwhile to trade. If they want to acquire hard currency, they should concentrate on developing ways to earn it. There is more to superpower status than sheer military might." The casual reader might conclude that Shelton is referring to the United States and its trade and budget deficits. Instead, her subject is the Soviet Union. That may console the miserable—among us who like company, but it also highlights just how monumental Gorbachev's effort at economic reform must be.

Despite her sensationalist title, Shelton deserves credit for pointing out that the Soviet budget has been in the red for many years. Soviet assertions about a balanced budget to the contrary. She relies almost entirely on the work of Igor Birman, an emigre economist, who for years was not taken seriously by his Western colleagues. Now both he and she stand vindicated. This past November, Soviet authorities officially conceded that not only will this year's Soviet budget be in the red, but it has been in deficit for most of the past decade, with expenditures exceeding revenues by as much as 10% and probably more.

The printing of paper rubles to finance this deficit has given rise to inflation of about 7%-8%, which is now also officially acknowledged. In addition, because of the poor quality of Soviet goods, the Soviets have had a hard time finding customers for their exports. Consequently, they have turned more to the capitalist world to finance their foreign trade, their domestic budget, and, as Shelton argues, their military expenditures.

Certainly, one should be cautious in lending money to the Soviet Union, but

Please Turn to Page 6

Shelton is unduly an alarmist. The Soviets have indeed increased the size of their international debt, but in the last two decades or so, whenever this debt has increased, they have moved rapidly to shrink it. They are much more conservative and traditional about these matters than we are.

Shelton has been victimized by the occupational hazard facing all Sovietologists today. Gorbachev has been changing the Soviet economic system so rapidly that what looks to be firmly in place today may be gone tomorrow or nine months after the manuscript is sent off to the printing house. Thus the Soviets no longer insist that foreign partners in joint ventures must be limited to no more than 49% of the ownership in such ventures. Moreover, the tax holiday for joint ventures extends to the first two years when they are profitable, not just the first two years of operation. Also, the Ministry of Foreign Trade has been abolished. Most telling of all, by proposing a unilateral reduction of 500,000 troops and 50,000 tanks and calling for the transfer of resources from the military budget to the consumer goods industry, Gorbachev has begun to address some of Shelton's most telling criticism. Indeed, the Soviets have announced that military factories will produce 40% of the plumbing that is destined for its new apartment construction program. But Shelton was right to raise such challenges to Gorbachev, just as Gorbachev has increased his credibility by moving to address concerns of the type she has expressed.

To make her case, Shelton presents the Soviet Union and Gorbachev as overindulgent and spendthrift, and portrays Western bankers throwing money at the all-too-willing Gorbachev. That may describe some foreign bankers, but that is not true of American bankers. As Shelton herself points out, U.S. loans to the Soviet Union totaled a mere $257 million as of June, 1985. Yet, she writes that this total is "an 80% increase over six months earlier." The fact remains, however, that this is a relatively small amount. Granted, Soviet borrowing from the West has increased substantially since Gorbachev came to office, but even so, net foreign debt totals only an approximate $26 billion. When Shelton lumps together all Soviet bloc debt of about $100 billion, that indeed is something to worry about, but as we saw when Poland had a debt crisis, each East European tub stands on its own communist bottom.

Shelton makes some minor errors, such as the statement that the Chase Manhattan Bank opened its office in the 1960s after David Rockefeller's visit to Moscow, when in fact the office was opened in 1973. But her bigger problem is that some of her conclusions are not borne out by the facts. For example, she asserts that "imported goods do not use up Soviet resources." But even with loans, the Soviets have to export goods to pay for their imports, and petroleum and natural gas make up almost 80% of Soviet exports to the Western world. Paying for imports this way certainly does use up Soviet non-renewable resources and for that reason has been a source of considerable criticism inside the Soviet Union itself.

She also worries that granting the Soviets "Most Favored Nation" status will enhance the Soviet Union's ability to sell its goods here. While it certainly will help, even the Soviets acknowledge that it will not help much, largely because at any price, the Soviets have had a hard time producing goods that anyone wants. Nor would most observers agree that "the biggest threat to the continued global authority of the Soviet Union and its status as a working model of socialism is the massive budget deficit it is carrying." Saying that is like putting the cart before the troika. Gorbachev's challenge is to energize the economy, shift resources from the military to the civilian sector, increase civilian productivity and improve the standard of living of the Soviet people. The budget deficit is a factor, but it is only one of many and not the most significant for the Soviets or the outside world.

Whatever one's disagreements, Shelton's book serves an important purpose. She is correct to call for the increased monitoring of loans to the Soviet Union and most important, she forces us to focus on the question of what kind of Soviet Union we really want.

If she ever writes a sequel, I would urge her to ask another question: At what point in his reform process should we regard Gorbachev's reform as substantive rather than just cosmetic? Depending on the answer, it may be in our interest to facilitate, rather than frustrate his efforts. Gorbachev has backtracked some, and the Soviet Union is still a long way from becoming a democracy, but would Shelton not acknowledge that the Soviet Union is a more benign society (dare we say a "kinder, gentler nation"?) than it was four years ago? If so, the issue then is whether we want the Soviet Union to continue along this more promising road or whether, instead, we want it to fail? These are the tough questions and as of now Shelton provides us with no guidance. ■

Goldman is the Class of 1919 Professor of Economics, Wellesley College, and the associate director, Russian Research Center of Harvard University. His most recent book is "Gorbachev's Challenge: Economic Reform in the Age of High Technology" (W. W. Norton).

MN moscow news No. 9, 1989

PAINFUL BUT NECESSARY

What will be the effect of a convertible rouble

Marshall I. GOLDMAN, a well-known American scientist, professor of economics, Associate Director of the Russian Research Center, Harvard University, joins in the discussion of this problem raised by the Soviet press, "MN" in particular.

Making the rouble convertible is the most difficult challenge Soviet planners face. That is because convertibility must be accompanied by a meaningful reform of domestic and foreign prices as well as a revitalization of the Soviet production and innovation process. At the same time, these other reforms will quickly become meaningless without the ongoing discipline of convertibility. Thus, making the rouble convertible is equivalent to achieving perestroika itself.

Convertibility provides an instant measure of how Soviet industry compares with industry elsewhere in the world. At a given dollar to yen exchange rate, we in the United States know when our computers are a better purchase than those made in Japan. When our computers are more competitive, we can take the dollars earned from selling those computers and buy yen to pay for their cameras. If we find that we cannot earn enough yen to pay for our imports, that tells us that we must either make better computers or stop buying so many cameras. Admittedly, convertibility does not always result in the perfect allocation of goods, but economic efficiency almost always suffers when there is no convertibility.

If convertibility makes so much sense, why is the Soviet Union moving so slowly to bring it about? The reason is that introducing convertibility can be very painful and disruptive, especially when economic relationships and Soviet productivity have become as distorted as they have over the last seventy years. Soviet enterprise managers did not have to worry about whether or not their machinery was as good as that in West Germany or France, because they did not have to compete for customers either inside or outside the Soviet Union. Soviet industry began to fall farther behind the technology standards of the rest of the world. The larger the gap, the more disruptive the necessary adjustment is likely to be.

Regardless of the difficulty, it has become clear that the Soviet Union must move towards convertibility. The first task is to make Soviet domestic prices more meaningful and equally important, to make the rouble convertible within the Soviet Union itself. Even if a Soviet citizen has roubles today, there is no guarantee that those roubles will buy either consumer goods or machinery. In some cases, goods like meat are rationed or unavailable in state stores. Similarly, if a Soviet factory wants to acquire machinery, it is more important to have an authorization from the State Planning Committee than extra roubles. The reason for such allocation and rationing measures is that many goods are in such short supply, and to let them sell at a price which would eliminate the lines would mean prices that would be too high for the poor. Yet these goods will always be in short supply as long as their low prices are subsidized and prevented from balancing out demand and supply.

This same lack of convertibility exists for roubles in relation to foreign products and currencies. There are not enough foreign goods or currencies to satisfy those with the roubles to spend. Thus, out of necessity, foreign imports are allocated by foreign trade officials or the State Planning Committee and not by the price which the highest bidders are willing to pay. In effect the prices of foreign goods expressed in roubles are too cheap.

There are various ways to end this shortage. One way is to raise the price of foreign goods or the price of foreign currencies relative to the rouble. Some have predicted that it would be necessary to have a rate as high as 6 roubles to the dollar rather than 60 kopeks to the dollar as is the case now. That may be as hard on the Soviet national ego as the fall in the value of the dollar was for us. If the price of the rouble relative to the dollar is decreased, that in turn lowers the price of Soviet goods for American cans and will make Americans more eager to buy Soviet goods. If at the same time Soviet producers are told that they can keep all the dollars they earn for themselves (not just a small percentage), that will make them work harder to find goods to export and make those goods more attractive and competitive. If there is more to buy, then foreigners will want to obtain roubles and pay a higher price for them. Remember as of now, it is illegal for foreigners to hold roubles outside the Soviet Union, which, of course, pushes the price of the rouble down and is the opposite of what is supposed to happen in convertibility.

It should be clear why the move to convertibility is likely to be so traumatic. For Soviet buyers, the prices of both Soviet and imported goods will have to be revised radically, mostly upward. At the same time, despite their higher prices, there will be a rush to buy imported goods. Many Soviet enterprises will encounter foreign competition. As we discovered in the United States, those factory managers who accept the challenge will seek to lower prices and increase quality. For those who cannot respond, however, it will mean fewer sales and bankruptcy. A drop in the value of the rouble will also make rouble earnings of joint ventures inside the Soviet Union less attractive and lead to fewer joint ventures.

Allowing the freer exchange of roubles for other currencies has to be approached with great care.

The recent decision to conduct an auction among those Soviet enterprises seeking to buy other currencies is a good first step. But holding one auction every four months is not enough. Moreover, foreigners must be allowed to join in the auction, even if at first this increases the downward pressure on the rouble to dollar ratio. Foreigners will only increase their holdings of roubles when they know that they can sell roubles legally and readily. All too often, bold steps in the Soviet Union, like the establishment of rouble currency auctions or joint ventures, are flawed by an initial unwillingness to go far enough. Only later is it decided to allow foreigners to own more than 49 per cent share in a joint venture or to participate in the currency auction. Not only does this reduce the potential gain from such basically sound reforms, but such halfway measures create a sense of confusion and contradiction in the outside world about how effective the reform will be.

The move towards convertibility is absolutely essential if the Soviet Union wants to become economically competitive. But that may mean inflation, unemployment and economic disruption. But it is hard to see what other alternative there is. In the mid- and late 1970s, the Soviet Union spent approximately one billion US dollars a year on foreign machinery, but because this machinery was implanted on an economy cut off from the rest of the world and operated in an arbitrary fashion, much of this investment was never profitably utilized. Today, with perestroika, there is reason to anticipate that this time the result will be more fruitful. But that will be so only if the reform process is carried out to its logical end and for that the Soviet people have to be very supportive and patient.

SUNDAY, MARCH 5, 1989 The Washington Post

OUTLOOK

Commentary and Opinion

A Secret Soviet Disaster?

Chernobyl May Not Be Their Only Radiation Mess

By Gabriel Schoenfeld

MIKHAIL GORBACHEV visited Chernobyl for the first time last month, telling the Soviet people from that still-stricken city in the Ukraine that "it's unlikely that we could live without nuclear power." Gorbachev's support for the Soviet program comes in the face of criticism of nuclear power by what The Washington Post described as "a growing number of environmental groups [in the Soviet Union] and by the Soviet press."

Chernobyl, the site of the worst-ever nuclear power disaster, has received a great deal of attention. But heed should also be taken of a radiation problem in the Soviet Union that has received almost no attention in the West, the consequences of which may be staggering.

Details of the Soviets' environmental problems are coming from recent emigrés who have been interviewed by the staff of Radio Liberty, a Munich-based broadcast service directed at the Soviet Union. Though there is circumstantial corroborating evidence, thus far there has been no independent means of verifying these particular accounts. If true, however, these reports suggest that something has gone terribly awry in the Soviet processing and handling of radioactive materials.

Soviet physicians, veterinarians, geologists and ordinary citizens report the existence of a major health crisis that stems from unsafe uranium mining, processing and waste-disposal techniques, and possibly from radiation leaks associated with Soviet nuclear weapons manufacturing, storage and testing. The reports also suggest that fruit, vegetables and livestock grown in areas affected by radiation continue to be sold in various locations in the Soviet Union.

Some of the accounts further suggest that the Soviet Ministry of Health and the KGB have been engaged in an effort to cover up the health consequences of the widespread radiation exposure from the Chernobyl nuclear accident.

A geologist from Ust-Kamenogorsk, a city not far from the Soviets' main nuclear-weapons test site at Semipalatinsk, reports that in the Central Asian republic of Kazakhstan "the population is exposed to heavy doses of radiation due to the concentration of both underground and open-pit uranium mines, uranium-enrichment plants, nuclear missiles and stocks of nuclear weapons." According to him, the civilian population and the prison-camp inmates who live in the area "are suffering from radiation sickness."

A veterinarian from Kurgan, a West Siberian city, reports that the sheep with which he worked were developing growths in their necks and glands. Although samples of the growths sent to a laboratory for analysis were officially determined to be benign, the veterinarian recounts that "unofficially, however, a friend working in the *oblast* [an administrative subdivision] veterinary administration warned me not to eat meat from these sheep since the growths were the result of radiation. The radiation in the oblast is much higher than normal and the grass eaten by the sheep is radioactive. These sheep, however, continue to be slaughtered and the meat sold to the unwary population."

A wide variety of reports from emigré doctors not only point to a problem with radioactive pollution, but also to secret orders banning mention of radiation-related illness. Some of these doctors attribute the illness to the aftermath of the Chernobyl nuclear accident and others to the processing of uranium.

An ophthalmologist from Karaganda, a city in Kazakhstan near the Soviet nuclear weapons testing area, reports that "radioactive dust settles in houses and on food and

Assessing the accuracy of such reports is impossible. The doctor in charge of Byelorussia's newly created radiological-medicine research institute has now confirmed, however, that radioactive produce is being brought to market in some locations. In a recent interview published in the Soviet press, he warned that "many people think that everything is okay, that one can eat and do as one pleases. This impression is very mistaken." Whatever the source of the radiation—Chernobyl, the military or industry—accounts of contaminated foodstuffs on sale to the public can no longer be dismissed as purely speculative.

Evidence tending to corroborate the emigré reports also comes from the 1985 Central Intelligence Agency's USSR Energy Atlas. According to the atlas, the great bulk of the Soviet uranium mining and processing industry is located near cities in Central Asia where the problem is said to exist. It is also highly suggestive that a team of Soviet doctors inquiring into gynecological problems afflicting large numbers of Central Asia women submitted the "biological materials" that it had gathered to Uzbekistan's Institute of Nuclear Physics for analysis. The findings of this institute have not been disclosed.

Given that open-pit uranium mining generally extracts a rather low grade of uranium, it is likely that the health problems mentioned in these reports stem not from the extraction process but largely from the processing and waste-disposal phases of uranium production, areas in which the United States has also met with difficulties.

It is also possible that the etiology of the reported health disorders involves exposure to other harmful, non-radioactive particles stirred into the atmosphere by uranium mining and processing or other unrelated industries. The possibility cannot be ruled out, of course, that some of the recent emigré reports are based on unsubstantiated rumors arising from the Chernobyl accident, but the problems that other countries have faced in controlling radiation lend credibility to these new accounts.

Even the United States, despite its strict regulations and controls, has had serious safety problems both in its uranium industry and in the production of nuclear weapons. For example, until the practice was curtailed in 1966, a refinery in Grand Junction, Colo., magnanimously donated 50,000 tons of radioactive uranium tailings to building contractors for use as a filler in the construction of thousands of homes and buildings. In the 1960s, uranium-mill byproducts were discharged into the water of streams and rivers used for irrigation, resulting in the radioactive contamination of food in parts of the American southwest. Pollution and safety problems associated with nuclear weapons manufacturing are now the urgent concern of the Department of Energy.

Considering our own unimpressive history in this area, as well as the pressures for lax environmental safety standards and practices in centrally-planned economies, it is not surprising that the Soviet Union faces similar or even more serious shortcomings. The Soviet Union has in the past shown a lack of respect for the dangers bound up in the atom. More than a decade ago, one Soviet spokesmen cavalierly declared that the problem of low and medium radioactive waste disposal is "regarded as solved in the Soviet Union." Another Soviet specialist has advocated siting nuclear-power stations near lakes because raising their water temperature by a few degrees "would be beneficial to the fishing industry, and would make life pleasanter for the people living in the vicinity."

Even before Chernobyl, Soviet planners seem not to have always coped well with radiation. Zhores Medvedev's claim that a nuclear catastrophe occurred in the Urals in 1957 has been evaluated by scientists at the Los Alamos National Laboratory. The open portions of their classified report indicate that in the late 1940s and 1950s, radioactive water from a plutonium processing plant was pumped into a holding pond that emptied directly into the Techa River, with deadly consequences for agriculture and human health.

The report also suggests that in the late 1950s, radiation pollution in this part of the Urals was increased dramatically when a pond used for the disposal of radioactive wastes evaporated, "leaving a layer of intensely radioactive crud attached to fine, red clay particles." Spring winds in the region that typically reach 60 miles an hour may have swept these particles into the atmosphere in radioactive dust storms. The dried-out pond was cleaned up in the early 1960s by prisoners who received generous reductions on their 10-to-15-year sentences (and on their life-expectancies) for volunteering to help cover the area with a layer of sand.

Even now after the Chernobyl accident, irrefutable evidence exists of continuing recklessness with nuclear materials in the Soviet Union. The Latvian newspaper *Sovetskaia Latviia* recently made the sensational admission that an ampule containing a radioactive substance was carelessly discarded in a Krasnoyarsk schoolyard, leading the local population to demand that the school be closed and the food in its cafeteria be destroyed. The newspaper further reports that at least two other similar incidents have occurred elsewhere in the Soviet Union. Moscow News has also reported that geologists carrying out "radiation monitoring" near the town of Mytischi in the Moscow oblast recently discovered gloves contaminated with radiation that had been tossed into a public toilet, resulting in the creation of what the article characterized as "four anomalous points, each several square meters in size." Why radiation monitoring was being carried out in this area in the first place has not been disclosed.

More than 15 years ago, Marshall Goldman forecast in his book, "The Spoils of Progress," that the health problems associated with radiation pollution in the Soviet Union "may become an urgent concern" as the nation increases its reliance on nuclear energy for both civilian and military purposes. While a small but growing number of emigré accounts cannot be said to provide definitive evidence that a widespread Soviet radiation catastrophe unrelated to Chernobyl exists, they certainly suggest that something may be amiss.

Over the past decades Sovietologists and other experts have had to pay a high price in lost time and knowledge for dismissing emigré accounts of Soviet life out of hand. Medvedev's revelation of a nuclear disaster in the Urals was initially derided as "rubbish" by Britain's highest-ranking atomic-energy official, and even now the Soviet Union stubbornly denies that anything occurred there. Accounts of deformities among livestock and wild animals as a consequence of Chernobyl that had been met with a dismissive skepticism are now being confirmed by the Soviet press.

These current reports from Soviet emigré doctors, veterinarians and geologists should not therefore be disregarded. At the very least, this is an area that bears close watching for further evidence of a widespread environmental peril in the Soviet Union.

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5/13/89

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume IX, No. 8
April 12, 1989

NEW DATA ON SOVIET COOPERATIVES

The Soviet statistical agency has released new data on Soviet cooperatives. As of January 1, 1989, there were 77.5 thousand cooperatives involving 1.4 million people. As the enclosed table indicates, the largest number are in the Russian republic. However, on a per capita basis, the largest volume of production of goods and services takes place in Latvia, where the figure is 71 rubles per person. In the Estonia, the figure is 64, as it is in Armenia.

Surprisingly there are relatively few official cooperatives in the Central Asia republics. On a per capita basis, Turkmenistan shows an output of only 6 rubles per person. The average for the country as a whole is 21 rubles. Since we know from past experience that a very strong premium is placed on individual production and private trade in Central Asia, we can assume that Central Asians simply continue with their private activities and do not take the trouble to legalize their effort s.

These figures do indicate that there has been a rapid development of cooperative activity. In 1988, the output of product and services increased 17-fold over what it was in 1987. Production of goods amounted to 1.5 billion rubles in 1988, and services rendered totalled 1.3 billion rubles. Some of these figures also include the leasing of workshops from enterprises.

BALANCE OF TRADE FIGURES FOR 1988

The trade figures for 1988 reflect some of Gorbachev's problems. They do show an increase in exports but for the most part, that is a reflection of the fact that the quantity of petroleum being exported increased. Unfortunately for Gorbachev, the price of petroleum fell, so all the information we have suggests that the quantity of petroleum being exported increased even more than was reflected in the ruble results. Thus, exports rose approximately 500 - 600 million rubles. Offsetting whatever pleasure Gorbachev might derive from the increase in exports, is the fact that Soviet imports rose even more. Imports from Western Europe and Japan rose 1.3 billion rubles. However, because of the poor harvest, grain imports rose sharply, making the total increase in imports equivalent to about 2.3 billion rubles. As a consequence, last year's small trade surplus with the hard currency countries has turned into a deficit trade balance of 1.6 billion rubles (we do not include Finland in these calculations because the Soviets have a barter arrangement with Finland, although these results are not too much different if Finland is included).

The increase in grain imports has a decided impact on American-Soviet trade. American trade rose over 700 million rubles, making the United States the third largest exporter after West Germany and Japan. Exports from Argentina and Canada also increased.

The biggest increase in Soviet exports was to Great Britain and Japan. Soviet exports to Italy and the Netherlands fell substantially.

THE SOVIET UNION UNDER GORBACHEV: A NEW RUSSIA?
June 28 - July 1, 1989

In three days of intensive study, the 1989 Harvard Alumni College will draw on the experience and expertise of Harvard's Russian Research Center in an effort to understand the intellectual, political, and economic forces that have shaped recent Soviet history. Harvard's most distinguished Russian area scholars will lead participants through a study of traditional Soviet political culture, the effects of the Revolution, and the impact of World War II and Stalin. Other lectures will include Soviet literature, Soviet foreign relations and the prospect of increased trade with the United States.

Participating faculty include Adam B. Ulam, Timothy J. Colton, Donald L. Fanger, Marshall I. Goldman, Edward L. Keenan, Aleksandr M. Nekrich, Richard Pipes, David E. Powell, Walter D. Connor, Sanford Lieberman and T. Anthony Jones.

The program is designed to be an intensive weekend immersion into Russian and Soviet affairs.

Topics will include politics, history, economics, literature and culture. Small study groups will be utilized to discuss major lectures.

For more information about the weekend, please contact Mr.Terry Shaler at the Harvard Alumni Association, (617) 495-5731. Reservation deadline is June 15, 1989.

U.S.S.R. FOREIGN EXCHANGE RATES

Number of rubles purchased for ...

Foreign currency	02/01/89	02/08/89	02/15/89	02/22/89	03/01/89	03/08/89
£100 Sterling	109.40	108.69	108.91	109.12	107.79	106.96
100 Aust. sch.	4.74	4.71	4.73	4.77	4.81	4.78
100 D. Marks	33.34	33.20	33.28	33.56	33.82	33.61
100 D. Guilders	29.53	29:34	29.49	29.73	29.99	29.79
100 US$	62.21	62.46	62.23	61.59	61.42	61.90
100 Fr. Francs	9.82	9.75	9.78	9.85	9.92	9.89
1,000 Jap ¥	4.79	4.81	4.84	4.88	4.87	4.84
10,000 It. Lire	4.56	4.54	4.57	4.57	4.58	4.57
100 Swiss Frs.	39.19	39.16	39.14	39.48	39.59	39.32
100 Nor. Kroner	9.23	9.19	9.23	9.24	9.24	9.22
1,000 Belg. Frs.	15.93	15.81	15.90	16.01	16.13	16.05
100 Sw. Kronor	9.81	9.78	9.82	9.81	9.82	9.81

NUMBER OF ACTIVE COOPERATIVES BY UNION REPUBLIC AS OF JANUARY 1, 1989:

(According to GosKomStat Statistics)

	Total # of coops	Categories: Everyday Services	Categories: Rest-aurants	Categories: Consumer Goods Production	Number of Employees (thousands)
USSR	77548	23716	7583	16152	1396.5
RSFSR	38895	12123	3479	7183	708.2
Ukraine	13534	4252	852	2575	248.8
Belorussia	2518	756	97	354	43.5
Uzbekistan	3226	1113	423	517	71.6
Kazakhstan	4572	1391	587	841	72.6
Georgia	2089	378	403	1051	32.3
Azerbaidzhan	1291	421	255	309	15.8
Lithuania	1569	379	143	528	25.5
Moldavia	1644	566	85	324	38.5
Latvia	1190	453	81	240	28.7
Kirghizia	1265	413	205	245	15.8
Tadzhikistan	723	258	130	98	12.5
Armenia	3616	682	658	1611	56.4
Turkmenia	477	200	95	112	4.8
Estonia	969	331	90	164	21.5

BALANCE OF TRADE 1979, 1980, 1981, 1982, 1983, 1984, 1985, 1986, 1987, 1988

(Millions of Rubles)

	EXPORTS FROM THE USSR										IMPORTS TO THE USSR									
	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Austria	442	580	854	675	566	761	805	540	431	454	368	396	507	535	787	891	859	852	600	712
Belgium	533	842	747	1032	991	1198	858	627	738	771	286	383	450	573	611	501	581	422	366	376
Gr.Brit	1094	859	645	813	1185	1393	1218	1274	1586	1794	811	953	858	752	632	819	684	515	524	623
Greece	180	409	538	533	533	582	594	219	242	310	65	92	100	122	155	102	134	65	71	92
Denmark	301	261	252	300	290	334	271	136	137	120	72	80	208	64	65	115	127	131	76	105
Spain	152	251	274	159	300	333	235	124	498	627	144	152	375	166	250	307	353	173	159	154
Italy	1292	2111	2484	2821	2998	3156	2468	1581	1804	1691	863	934	1002	1222	1436	1325	1325	1474	1686	1343
Nthlnds	903	1027	1019	1505	1224	1612	987	576	781	657	243	361	458	359	489	276	313	245	232	278
Norway	87	49	52	93	80	129	104	52	64	82	51	79	96	72	102	80	73	69	62	83
Germany	2218	3096	3635	4065	4067	4536	4251	2879	2492	2537	2485	2989	2703	2913	3360	3376	3243	2968	2676	3285
France	1426	2242	2525	2228	2422	2447	2174	1541	1518	1579	1198	1510	1665	1268	1728	1777	1603	1130	1090	1190
Swtzlnd	314	445	331	533	510	541	384	287	344	405	276	403	497	411	345	410	567	456	540	773
Sweden	554	355	291	409	652	563	492	298	427	463	223	322	347	345	255	272	306	245	225	246
Japan	944	950	817	757	825	840	928	980	973	1184	1661	1773	2213	2926	2176	2054	2287	2205	1628	1951
SUB TOTALS	10528	13568	14610	15988	16683	18469	15769	11114	2035	12674	8781	10464	11516	11771	12429	12358	12455	10950	9935	11211
Sub-Balance of Trade											+1747	+3104	+3094	+4217	+4254	+6111	+3314	+164	+2100	+1463
Argntna	25	30	31	28	26	26	62	53	41	24	289	1162	2372	1265	1300	1104	1230	192	417	547
Brazil	20	22	16	180	107	95	70	30	46	17	160	253	534	416	591	373	380	236	252	151
U.S.A.	350	151	183	155	331	306	326	313	279	332	2487	1352	1662	2072	1570	2829	2376	1146	919	1773
Canada	32	30	50	21	24	19	18	10	47	16	453	972	1377	1378	1278	1403	949	624	449	535
Australia	5	6	11	14	12	22	14	8	12	14	393	775	538	510	404	481	532	509	348	350
NZ	3	3	7	8	6	8	4	5	6	10	114	167	168	230	179	49	87	89	68	102
TOTAL	10963	13810	14908	16394	17189	18945	16263	11533	12466	13071	12677	15145	18167	17642	17751	18597	18009	13746	12388	14669
Balance of Trade											-1714	-1335	-3259	-1248	-562	+348	-1746	-2213	+78	-1598
Finland	2023	2024	2290	2396	2483	2421	2299	1595	1707	1529	1865	1865	2723	2798	2690	2312	2687	2378	2036	2188
	12986	15834	17198	18790	19672	21366	18562	12138	14173	14600	14542	17010	20890	20440	20441	20909	20696	16124	14424	16857
Balance of Trade with Finland included											-1556	-1176	-3692	-1700	-769	+457	-2134	-2996	-251	-2257

THE SOVIET UNION

A little too much glasnost, perhaps

Election results a shock – even to Gorbachev?

By Marshall I. Goldman

The doubters among us should be reassured. Mikhail Gorbachev is for real.

We were cautious when the Soviet Union's secretary-general and president said he would allow private business and cooperatives in the Soviet Union. He tied some strings to their operations, but there are now private and cooperative businesses in the Soviet Union. He said he would withdraw Soviet troops from Afghanistan. The Soviet Union continues to supply weapons to the Afghan government, but its troops are out. He said he wanted secret elections with more than one candidate. While one-quarter of the candidates in last week's election had no opposition (a little worse than Massachusetts), and in some districts there were no differences between the officially-sponsored candidates, there were, nonetheless, some very heated contests with the opposition candidates voicing some very radical ideas.

A groundswell of discontent

While all of this looks impressive from the outside, there are strong indications that Gorbachev set in motion more than he, and certainly more than his conservative comrades in the Politburo, bargained for. Gorbachev was explicit about his original intentions. He wanted to introduce what he called "democratization" in an effort to shake up the entrenched bureaucracy he had inherited from the Leonid Brezhnev years. After a few months in office, Gorbachev came to realize that the population in general had lost confidence in the system. It was distrustful of Gorbachev's promises of reforms, because similar reforms in the past had all come to naught. As before, the workers now were being asked to make sacrifices, while their leaders went about their business and kept all their privileges as usual. Gorbachev apparently concluded that the only way to address such deep alienation would be to subject government bureaucrats to a secret vote of the general public.

But as Gorbachev quickly discovered, creating a democracy from scratch is not an easy task. Realizing that too much democracy might be too destabilizing, Gorbachev designed a series of tempered measures. Rather than permit the direct election of a president and parliament he created a brand new entity of 2,250 delegates called the Congress of People's Deputies. Similar in part to our much smaller Electoral College, this Congress of People's Deputies is to meet briefly once a year to pick a president for a five-year term, as well as members of a 542-body Supreme Soviet. It is the members of the Supreme Soviet who are to have power to determine taxes and pass laws, not the members of the Congress elected last week.

With this indirect type of election, Gorbachev assumed that the party would be able to maintain its control and preempt any group from claiming a popular mandate directly from the voters. First of all, he set aside 750 of the 2,250 seats for special-interest groups. The most important group was, of course, the Communist Party. The party was allocated 100 seats, which it filled with senior party officials such as Gorbachev. This spared them the indignity of a contested election and ensured that they would be on hand to superintend the Congress once the other members were elected.

But there was another safeguard built into the system. In an effort to limit the number of unconventional delegates, local party authorities were entrusted with the power to determine which nominees in the general election of the 1,500 open seats would ultimately emerge as actual candidates. In this way, most of the more outspoken reformers were dropped from the ballot by the time the final nominating process had been completed. However, a few party and nonparty mavericks did survive. But not enough, it was thought, to make much difference. Essentially, Gorbachev had a fire without any burning.

Significance of Yeltsin victory

Imagine the reaction then of some of the party conservatives like Yegor Ligachev to the actual results. Despite the party's best efforts, the elections now carry a ringing mandate of widespread discontent with the status quo. Nothing epitomizes this sentiment more than the victory by Boris Yeltsin. A year and a half ago, Yeltsin had been deposed as Communist Party chief of the Moscow region and was personally criticized for his mismanagement by Gorbachev himself. Among other accusations, Yeltsin was criticized for having lost the support of the people. Now, having won 89 percent of the vote from the whole city of Moscow, it is clear that it is Yeltsin who has the support of the people, not his officially-sponsored opponent.

Similar protests deposed the commanders of the Soviet forces in East Germany, Moscow and Leningrad, as well as the heads of the Leningrad and Kiev party organizatons. What makes the Leningrad and Kiev races especially noteworthy is that, in both cases, these party leaders were unopposed in the general election. They lost because more voters crossed off their names than left them on the ballot. In effect, they defeated themselves.

Nor were the results only a reflection of dissatisfaction with the party leadership. In the Baltic republics, for example, nationalists received what has to be interpreted as a mandate for more independence and autonomy, if not secession from the rest of the Soviet Union. In the extreme case of Lithuania, candidates from a nonparty group called Sadujis won more seats than candidates officially sponsored by the governing Communist Party.

All of this has to be viewed as a vote of no confidence with the present state of perestroika, as well as the party leadership. It is not that the mavericks who have just been elected have a platform or reform plan of their own – they do not. All they are saying is that they do not like what has happened so far, and they have no confidence in their local party leadership.

A feeling of vulnerability

For Gorbachev, that is the most dangerous message of all. The fact that in the truly contested elections it was an unorganized opposition that won suggests that if there had been more actual contests, some of those exempted from challenge because of their guaranteed 100 seats – people like Ligachev and Viktor Chebrikov, the former head of the KGB, and conceivably even Gorbachev himself – might also have lost. The implication is clear. Every victor who escaped a contest must now wonder about the legitimacy of his position. Most of the senior party officials now find themselves in that untenable position.

Like any good politician, Gorbachev is doing his best to put his own spin on the results. As he sees it, the vote reflects popular frustration with the slow pace of the reforms. Indeed, Gorbachev has been attacking foot-draggers and calling for more response from the general population. However, most of the challengers who won conducted their campaigns in the name of perestroika and their backing for Gorbachev.

Most telling of all, however, is the official downplaying of these surprising results. It is hard to find more than the briefest reference to the magnitude of the electoral upheaval – and that suggests that Gorbachev is more uncomfortable with the results than he would like us to believe.

Marshall I. Goldman is associate director or Harvard's Russian Research Center and professor of economics at Wellesley College.

THE BOSTON SUNDAY GLOBE APRIL 2, 1989

Administration seen as close to decision on a Soviet policy

By Charles A. Radin
Globe Staff

HARRIMAN, N.Y. – The Bush administration is readying initiatives to respond to the Soviet Union's moves toward ending the Cold War, according to officials and scholars familiar with the current, exhaustive US review of superpower relations.

The specialists said the recommendations of major federal agencies – the State and Commerce departments, the Central Intelligence Agency and others – are now before the National Security Council, which may conclude the administration-wide policy review this week. Some of the specialists were interviewed at the annual conference of Harvard and Columbia universities' Soviet specialists that concluded here yesterday; others were contacted by telephone.

The government officials declined to outline specific initiatives under consideration, but said interest is focused on providing stronger incentives for decontrol of the Soviet economy, maintaining and increasing American pressure for democratization of the Soviet system and greatly increasing the exposure of Soviet citizens to Western ideas.

Soviet-American relations evolved rapidly during the last two years of President Reagan's term. Mikhail S. Gorbachev, the Soviet leader, took a number of major steps late last year to reduce military tensions and move his nation closer to democracy.

There has been no initiative from the American side since President Bush took office, and Bush declined to begin strategic-arms-reduction talks as quickly as had been suggested by Reagan administration officials.

"I want to take the offense in moving this relationship forward," Bush said at his first news conference after assuming office. But he went on to declare that an unhurried review would be done first.

Now, according to a top-ranking State Department official who spoke on condition of anonymity, "The review is in its closing phases."

He said the administration is preparing "bold new initiatives" that would encourage greater personal and economic freedom in the Soviet Union "but which cannot be seen as giving Gorbachev a helping hand.

"Remarkable" shifts

Ronald F. Lehman, assistant secretary of defense for international security policy and Bush's nominee to head the Arms Control and Disarmament Agency, told participants at the Harvard-Columbia conference that "the last thing we should do is subsidize an inefficient economy" – a reference to calls for easing trade and financial arrangements with the Soviet Union in response to steps taken there to relax tensions and improve human rights policies. "We should force them to restructure."

But Lehman continued: "The change taking place in the Soviet Union is remarkable and we ought to encourage it and keep it going as much as possible. I think that's the approach the new administration will take."

A prime reason for wariness on the administration's part, many American specialists on the Soviet Union agree, is a spreading euphoria – fraught with pitfalls for the United States – at the perception that the Cold War is over.

There is strong sentiment in Western Europe and among some prominent American politician-scholars, notably those involved in the Preventing Nuclear War Project at Harvard's Kennedy School of Government, that the effort launched in the mid-1940s to contain and frustrate Soviet expansionism has succeeded.

Thus, Graham Allison, the Kennedy School dean and a consultant to the Defense Department in the Reagan administration, is arguing forcefully that it is now up to Bush to seize the opportunity to move beyond the Cold War.

Former President Nixon is pressing the alternative view, asserting that little significant change has occurred and urging Bush to proceed slowly and roughly.

The new administration so far is unwilling to embrace either view, according to Soviet-policy specialists in the government and academe. Generally, leading specialists approve of that cautious stance, agreeing with Lehman that "the ice is melting" but that Soviet officials have not passed the point of no return in democratizing their society. The specialists also applauded the slow pace of the Bush review.

Peter Reddaway of George Washington University, former director of the Kennan Institute for Advanced Russian Studies, said that "the Soviet tactics, the Gorbachev tactics, have always been to put a lot of pressure on the Americans to go fast, fast, fast. There is danger in going fast of making mistakes – pitfalls in managing change and keeping it under control."

Rep. Les Aspin, chairman of the House Armed Services Committee, said that within Congress and the administration, both the option of continuing Reagan-era policies and the option of declaring the Cold War over and moving boldly toward a radically redefined relationship with the Soviet Union have been discarded.

"The real debate is between the stand-pat school and the seize-the-opportunity school," the Wisconsin Democrat said in a characterization that several State Department sources agreed with. "The stand-pat school is really a policy of react – make the Soviets go first and then we'll react. The seize-the-opportunity school holds that our children and grandchildren will never forgive us if we don't seize the opportunity presented by Mr. Gorbachev – that we ought not just react, we ought to act."

Policy evolving

Aspin said top Bush appointees "sounded like the stand-pat school at their confirmation hearings, but now sometimes they sound like the seize-the-opportunity school."

A ranking State Department source said this difference stems in part from "very productive discussions with Soviet officials" that seem to broaden the range of possibilities, and from differing opinions among American officials involved in the policy review.

Some agree with the advice of Adam Ulam, director of Harvard's Russian Research Center, who has advised both Reagan and Bush on dealing with the Soviet Union. At the weekend conference, Ulam called for a policy of "masterful inactivity."

But there is considerable countervailing sentiment.

"I'm urging," said the State Department source, "that we not always be on the conservative side when there are significant people in the Soviet Union saying things are not moving fast enough. We are concerned about instability, of course, but it is not our job to preserve the Soviet empire," he said, referring to the widely held belief that some trade and financial steps that have been advocated as tokens of friendship toward the Soviet Union would actually slow the restructuring that the United States desires by making it less imperative.

"We should let them find their way, and not try to slow them down."

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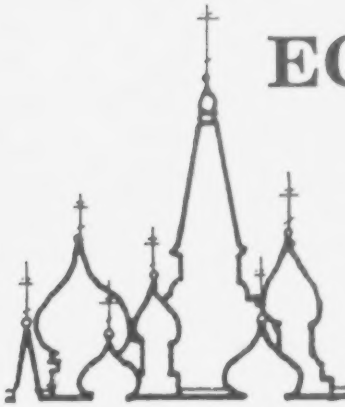

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ECONOMIC RESULTS FOR THE FIRST QUARTER OF 1989

Product	1st Quarter 1989	1989 as a % of 1988
Electricity (billion kw hrs)	469	100.2%
Petroleum (million tons)	152	97.
Natural Gas (billion meters^3)	204	103
Coal (million tons)	199	98.
Steel (million tons)	40.9	99.5
Fertilizer (million tons)	9.2	99.
Metal-cutting tools (thousand units)	6.0	113
Robots	*	*
Computer tech. (billion rubles)	1.8	122
Tractors (million hp)	*	*
Paper (million tons)	1.6	99.1
Cement (million tons)	34.9	101
Meat (million tons)	2.8	99.0
Margarine (thousand tons)	403	93.
Watches (million units)	14.6	106
Radios (million units)	1.8	100
TV sets (million units)	2.1	98
Automobiles (thousand units)	198	98

* not published

LIVESTOCK HERDS
(Million tons)

Herd	As of 4/1/88	As of 4/1/89	1989 as a % of 1988
Cattle	96.6	95.1	98.4%
Cows	28.7	28.4	98.9
Hogs	58.0	58.4	100.
Sheep Goats	135.5	132.8	98.0

FOOD SALES
(Million tons)

Product	1st Qarter 1989		1989 as a % of 1988
Bread products	9.1		98%
Dairy products	8.2		104
Cheese	0.2		99
Vegetable oil	0.3		101
Margarine products	0.3		92
Meat and meat prod.	2.9		103
Fish and fish prod.	1.1		96
Eggs (billion units)	12.1		98
Sugar	1.7		90
Confectionery prod.	1.3		106
Tea	0.1		104
Potatoes	1.6		86
Vegetables	1.7		102
Fruit & Citrus	0.68		103
Non-alcoholic bevs.	94.5	(mil. decaliters)	108
Mineral water	94.5	(mil. decaliters)	106
Vodka & Liquor	40.4	(mil. decaliters)	139
Wine	48.5	(mil. decaliters)	128
Cognac	3.2	(mil. decaliters)	138

Economic Results for the First Quarter of 1989

In times past, whenever the Soviet economy faltered, Soviet statistical authorities halted the publication of monthly economic data. As readers of this newsletter know, we have not had monthly data since August 1988. The published statistical results released for the first quarter of 1989 suggest that there is good reason to hold back some of the monthly data; the quarterly results are not favorable. It is true that according to the statistics, the Soviet index of what is called gross national product rose by 5%. However, that masks a multitude of problems. For example, production of food products rose 2.7% while the plan called for an increase of 12.7%. Similarly, the work force shrunk by 0.4% whereas it was supposed to increase 2.2%. And most disturbing of all, productivity rose 4.5%, but the wage fund rose 9% (against a planned increase of only 3%), and the average monthly wage rose 9.4% when it was only supposed to rise 0.9%. On the farms, the average monthly wage of the peasants rose 5% where it was only supposed to increase 1%. This helps to explain why there is such concern in the Soviet Union about inflation.

The statistics also indicate why there has been so much discussion about the difficulty in obtaining food products. Production of meat was down 1% although sausage production was up 2%. But most striking of all was the fact that bread sales were down 2%, cheese 1%, fish 4%, eggs 2%, sugar 10% and potatoes 14%. Vodka sales, after the new liberalized measures were introduced, rose 39%. Wine sales rose 28%, champagne 12%, cognac 38%, and beer 12%. That certainly should make the man in the street happier, although not necessarily his wife. Moreover, it does reflect a considerable retreat from what Gorbachev had tried to do earlier. Also, there was an increase in sales of some milk products and some meat by 3%.

From the consumer's point of view, it was also disappointing to learn that housing construction diminished by 0.5 million square meters. At least a few years ago, housing construction was increasing.

It now looks like Gorbachev is beginning to have some problems with the main sectors of industry as well. Oil production, for example, was down 3% in the first quarter of 1989. That is the first time there's been such a substantial drop in many years. Similarly, electrical production was just about the same and gas production rose only 3%. Coal production, however, dropped 2% and steel production was below what it was the preceding quarter by a fraction.

As far as agriculture is concerned, the statistical report acknowledges that there was a shortage of feed grains in the first quarter, and that has had a negative impact on the size of the herd. As a look at the table indicates, while the number of pigs has increased, the number of cows, chickens, and goats has dropped between 1 and 2%.

Reflecting the serious problem in agriculture, the Soviets have reported that in the first quarter of 1989 they increased their imports of coffee and grain by nine tons more than last year, butter by 74,000 tons, tea by 6,000 tons, meat and meat products by 17,000 tons. Additional consumer goods were also purchased. However, this comes against the backdrop of a curtailment in imports last year.

There were some positive signs. The sale of consumer appliances did seem to increase significantly. Color television set sales were up by 4%, refrigerator sales were up by 10% and washing machines by 6%. However, the production of automobiles dropped by 8% and retail sales fell by 2%.

Finally, a word should be said about the changed format of the statistical report. In the past the first items recorded were always heavy industrial products, but now they come at the very end of the report. That is intended to reflect the change in emphasis. In addition, there is also a special section which provides crime statistics, as well as a report on the environment. This is all designed to put more emphasis on things that are of immediate importance to the consumer. In the meantime, however, the reports, whatever they are, on the whole tend to be quite gloomy and further indication that perestroika is in trouble.

Opinions and ideas expressed in this newsletter are those of the author and not the RRC or Harvard University unless otherwise indicated.

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FOREIGN EXCHANGE RATES
March 15, 1989 to April 12, 1989

Quoted in rubles

	March 15	March 22	March 29	April 5	April 12
£100 Sterling	107.02	107.15	107.57	105.78	106.49
100 Aust. Sch.	4.75	4.75	4.74	4.73	4.75
100 D. Marks	33.44	33.38	33.40	33.36	33.45
100 D. Guilders	29.60	29.57	29.59	29.54	29.64
100 U.S. Dollars	62.24	62.53	62.56	62.91	62.77
100 Fr. Francs	9.85	9.86	9.86	9.88	9.90
1,000 Jap. ¥	4.80	4.74	4.74	4.76	4.73
10,000 It. Lire	4.55	4.55	4.54	4.55	4.56
100 Swiss Frs.	39.14	38.79	38.44	38.03	38.02
100 Nor. Kroner	9.18	9.19	9.19	9.17	9.20
1,000 Bel. Frs.	15.95	15.94	15.94	15.91	15.97
100 Sw. Kronor	9.77	9.79	9.80	9.79	9.82

THE CHICAGO TRIBUNE, Tuesday, May 2, 1989 Section 1, page 15

Gorbachev outmuscles his foes

By Marshall I. Goldman

Once again, Mikhail S. Gorbachev has taken by surprise not only outsiders but those inside the Soviet Union as well. His purge of the "dead souls" in the Central Committee of the Communist Party, second in importance only to the Politburo, was a brilliant political move. Theoretically, committee members can be replaced only at a party congress, which meets every five years, the next being in 1991. But Gorbachev did not want to wait that long to rid himself of some of his opponents.

Instead, he pressured 74 of the more conservative voting members, or one-quarter of the Central Committee membership, to submit their resignations "voluntarily." According to their jointly signed statement, they felt they should resign because of "their age or the state of their health." That would be like George Bush accepting the voluntary resignation of one-quarter of the House of Representatives, all of whom by coincidence happen to be Democratic. Who would believe they would resign voluntarily?

Many of these "dead souls" should have resigned long ago. They had been appointed to the Central Committee because their selection as regional party secretaries or other senior governmental or party positions entitled them to this honor. But as part of the process of reform, Gorbachev has replaced a large number of these officials and on occasion even abolished the offices they held. Thus just as the dead serfs in Gogol's novel "Dead Souls," these modern-day bureaucrats no longer represented what they originally were to represent; they had lost legitimacy.

But this political victory for Gorbachev has come at a cost; it has called into question Gorbachev's campaign for *glasnost* and democratization. Is Gorbachev being honest and following official procedures? No one believes these resignations were voluntary or for the stated reasons of age and health. After all, many of those who resigned were in their 50s and 60s, and 12 who were removed did not resign. It was explained that the members of this latter group "are seriously ill" and could not attend the meeting to sign the voluntary statement about their health.

Equally surprising, none of those who had lost the March 26 election for membership in the new Congress of People's Deputies were removed from the Central Committee. The initial expectation was that they would be the major targets of any purge. But Gorbachev is good at putting his own spin on events for his own purposes. He used the March election results and the protest over the course of *perestroika* that the election reflected as an excuse to purge those he viewed as his opponents.

But why did Gorbachev not remove those who lost the March election as well as those who survived the election but continued to be his most dangerous critics? In particular, why did this purge not affect the leaders of the Leningrad, Moscow, Kiev and Minsk party organizations who lost the election, as well as Igor Ligachev, Viktor Chebrikov and Vladimir Shcherbitsky, three of Gorbachev's severest critics on the Politburo? They might be purged next, but the best answer is that Gorbachev may not yet be strong enough to challenge these party stalwarts. Another explanation is that before he decided to launch such a battle, Gorbachev felt he had to improve the voting odds in the Ceentral Committee, which he did by ridding himself of those "dead souls."

It also may be that the whole election process has complicated Gorbachev's political struggle. Since Ligachev, Chebrikov and Shcherbitsky all won election to the Congress of People's Deputies, it would be awkward if Gorbachev then removed them. Admittedly, none of them had to run against an opponent; but neither did Gorbachev.

While Gorbachev's political victory may not have been as complete as he might have wanted, the odds are that this purge allows him more time to deal with what he himself admitted was a deteriorating economy. There were harsh words at the Central Committee meeting about how *perestroika* has failed. Indeed, many of the party officials who were defeated in the March elections, especially those from Leningard, blamed the failure of *perestroika*.

That, of course, is a not so subtle way of attacking Gorbachev himself. But what can Gorbachev do? As he noted, the workers are not working and the bureaucrats are not supporting his reform. In the meantime, the national budget deficit is increasing and wages are rising twice as fast as productivity, which results in inflation and more shortages of goods. Nor will the resignations help Gorbachev cope with the increasing unrest in the minority republics.

It may be that Gorbachev's victory last week, as incomplete as it was, nonetheless will serve an important purpose. Admittedly, his purge may not have done much to inspire confidence in *glasnost*. Yet the renewed display of Gorbachev's strength should convince others, both the bureaucrats and the Soviet people, that they had better give more than lip service to what he is trying to do. Ultimately, that is what Gorbachev needs. Political victories and letters of resignation help, but it is making available more food and consumer goods, and the production of those items within the Soviet system, that ultimately will decide Gorbachev's fate.

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Marshall I. Goldman is professor of economics at Wellesley College and associate director of the Russian Research Center at Harvard University.

The Economic Challenge of Perestroika
by Abel Aganbegyan
Indiana University Press, 1988
275 pages, $18.95

reviewed by Robert W. Campbell

This book expresses the attitudes, understanding, and hopes of Soviet economic reformers at an early point in the unfolding saga of perestroika. The author, Abel Aganbegyan, who is described as chief economic adviser to Mikhail Gorbachev, is an influential exponent of reform and an architect of the reform concept. As director of an economic research institute in Novosibirsk and editor of the most interesting economic periodical in the Soviet Union, he was an early critic of the system and a proponent of reform. When Gorbachev came to power, Aganbegyan became an important member of the reform brain trust.

Aganbegyan presents a strong critique of the Soviet economy—it is far worse than the official picture, he says—and an analysis of how the economy got into this alarming state. Although Aganbegyan's use of exotic terminology and unfamiliar measures seem a little awkward, his analysis of the cause of the slowdown is much like that of Western specialists. Soviet growth strategy, and the economic system that directed it, relied on growing inputs of labor, capital, and natural resources, with relatively little technical progress or productivity growth. That strategy can no longer be sustained because of demographics, depletion, and other adverse effects limiting input growth.

The book contains a fairly clear exposition of the first steps intended to create the basis for improved performance. At the heart of the strategy is increased investment to renovate capital stock and alter the structure of output. Capital stock currently embodies old technology that is wasteful of inputs, so that the final output obtained from massive resource inputs is much smaller than it ought to be. Aganbegyan has a wonderful faith in technical progress as the solution to this problem. One long chapter explains how the institutional structure is to be remodeled to provide better incentives and control, working through a mixture of elements of plan and market. The author sees clearly that reform of the economy implies a broader program of restructuring society as a whole.

There is also unhelpful ballast. A chapter on the relationship of perestroika to the arms race is thoroughly unsatisfactory. This chapter is written by someone other than the author, since he pleads ignorance of these matters. That seems a damaging admission for a chief economic adviser, when allocation of 15 percent or more of the Soviet gross national product to military purposes is one of the major reasons for faltering performance. Two appendices on the use of mathematical models in planning serve the author's vanity more than the reader's edification. As tools of central planning they have little relevance to a reformed system.

Perhaps the most important thing to understand about the book is that it reflects the early thinking of the reformers. It conveys very well how incomplete their vision of the new system was or how the reform process might move toward its goals. The author says that the system will have been transformed by the year 2000, but there is little sense of the intervening steps in the process of change. The vision of the reformed system is one in which there is still a great deal of planning. The system will be more market-like, but it will still be socialist, serving socialist goals defined for the society from the top. If we go by the record of economic reform in the socialist world as a whole, that seems naive. The only way to release lower-level initiative, make producers responsive to consumers, and overcome the traditional sluggishness in innovation is to abolish central administration and the bureaucracy that operates it. Aganbegyan seems to underestimate how far reform may need to go to abolish the baneful influence of direction from the top.

In this respect, Aganbegyan reflects the state of understanding at the beginning of the Gorbachev period. Events have now moved on, and after three years of reform the complexity of the challenge and the inefficacy of half-hearted measures have become obvious. Halfway through the Twelfth Five-Year Plan the economy is disrupted by piecemeal reform and continued interference by the bureaucracy. Perestroika has yet to provide visible payoffs in terms of growth or improved efficiency. In particular, it has done little for the consumer. And there is little evidence that the renovation of capital stock designed to increase productivity is in fact taking place. Uncertainty and continued bureaucratic interference have inhibited new forms of behavior by lower-level managers. The reformers have temporized on measures to assure macroeconomic balance. They are far behind the timetable for getting a properly functioning new system in place for the next five-year plan in 1991.

In the process, the analysis of what needs to be done has grown in sophistication. Positions have become more polarized, but among the economists on the reform side there is increasing sophistication about reform and a willingness to radicalize the program. At the party conference last summer, Leonid Abalkin, perhaps a more interesting economist than Aganbegyan, said that what has been done so far is too little and too timid. It is not clear that the full impact of that message has been accepted by the political leadership, although the political shakeup in September 1988 may have set the stage.

For anyone accustomed to old style Soviet economic discourse, this book will be a revelation, an interesting and substantive treatment of a kind not seen since the 1920s. Although it does more to define the challenge of perestroika than to suggest how to meet it, it still provides an excellent background for following the unfolding struggle. □

Robert W. Campbell is a professor of economics at Indiana University and author of Soviet Energy Technology *(1983).* Professor Campbell is a Bradley Research Fellow at the Russian Research Center.

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ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIII, No. 10
June 10, 1989

SOVIET TRADE WITH EASTERN EUROPE

The Soviet trade relationship with Eastern Europe has changed significantly from what it was prior to 1987. The movement away from the very large trade surpluses that the Soviet Union had developed with Eastern Europe began in 1987. It shows up in a much more dramatic way, however, for all of 1988. Official figures for the whole year indicate that the Soviet trade deficit approximated 2.4 billion rubles. That contrasts with a trade surplus of 2.6 billion rubles only two years earlier, in 1986.

While much of the change is due to the fact that the price of oil has dropped (that is why Soviet trade exports to the whole bloc were down 1.6 billion rubles in 1988 compared to 1987, and down by 3 billion rubles from 1986), it also happens that the imports from Eastern Europe had increased in 1988 by approximately 700 million rubles. Thus, in addition to the drop in the price of oil, there also seems to be some increase in imports from Eastern Europe to the Soviet Union. There have been some complaints about this from the East Europeans who argue that they are being forced to pay for at least a part of *perestroika*. Soviet trade with Poland reflects the biggest shift. Thus, in 1988, the Soviets imported 800 million rubles' worth of goods more than they exported to Poland. In contrast, in 1987 the Soviets exported over 200 million rubles more than they imported and of course that contrasts markedly with 1981, when the Soviets supported Poland with 1.7 billion rubles' worth of goods above the value of what was imported from Poland. Those were the years when the Solidarity movement had disrupted the economy. And now it looks like the Poles are paying back the Soviets for that trade surplus and clearly that imposes a burden on Poland.

The only Eastern European country that had a trade surplus with the Soviet Union in 1988 was the German Democratic Republic. In 1987, Poland and Romania also had trade surpluses. These were eliminated in 1988.

The main goal of trade in Eastern Europe is to make sure that you have no surplus in the trade balance with your partner. That is because the rubles that are earned buy nothing. The East European countries have been complaining that the rubles they are accumulating have actually added to the inflationary pressure within their countries. That is because local currencies are paid off for the products that are produced, but then there is nothing in turn for the local workers to buy with that currency. It will be interesting therefore to see how much longer the Soviets accumulate a trade surplus like this before there are severe protests from their trading partners.

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE
(in million rubles)

Exports from U.S.S.R.

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Bulgaria	3660	4375	4885	5511	6124	6435	6788	6276	6094
Czecho-slovakia	3648	4382	5048	5872	6591	6813	6947	6777	6385
GDR	4873	5526	6420	6798	7481	7652	7880	7636	7193
Hungary	2982	3307	3707	4058	4321	4560	4678	4600	4484
Poland	4406	4931	4813	5274	6069	6517	6814	6542	6298
Romania	1350	1779	1424	1640	1807	1949	2823	2539	2344
	20919		26297		32393		35930		32798
		24300		29153		33926		34370	

Imports to U.S.S.R.

	1980	1981	1982	1983	1984	1985	1986	1987	1988
Bulgaria	3439	3697	4288	5053	5608	6040	6191	6552	6873
Czecho-slovakia	3536	4105	4732	5420	6017	6587	6556	6907	6817
GDR	4327	5155	5776	6596	7367	7553	7128	7093	7024
Hungary	2757	3300	3746	4007	4434	4850	4873	5080	4943
Poland	3596	3221	4097	4787	5297	5525	6128	6329	7109
Romania	1441	1673	1683	1665	1755	2277	2415	2347	2431
	19096		24322		30478		33291		35197
		1151		27528		32832		34408	
Balance of Trade	+1823	+3149	+1975	+1625	+1915	+1094	+2639	-38	-2399

*Note switch in balance

FOREIGN EXCHANGE RATES
March 15, 1989 to April 12, 1989

Quoted in rubles

	March 29	April 5	April 12	April 26	May 10
£100 Sterling	107.57	105.78	106.49	106.81	106.05
100 Aust. Sch.	4.74	4.73	4.75	4.79	4.74
100 D. Marks	33.40	33.36	33.45	33.72	33.34
100 D. Guilders	29.59	29.54	29.64	29.88	29.58
100 U.S. Dollars	62.56	62.91	62.77	62.30	63.19
100 Fr. Francs	9.86	9.88	9.90	9.94	9.88
1,000 Jap. ¥	4.74	4.76	4.73	4.75	4.71
10,000 It. Lire	4.54	4.55	4.56	4.59	4.57
100 Swiss Frs.	38.44	38.03	38.02	38.17	37.36
100 Nor. Kroner	9.19	9.17	9.20	9.27	9.21
1,000 Bel. Frs.	15.94	15.91	15.97	16.10	15.95
100 Sw. Kronor	9.80	9.79	9.82	9.88	9.84

Interested in a course on how to survive in Moscow?

With the large number of Americans going to Moscow, we have been approached by some corporations asking if we would repeat the survival course we arranged a few years ago for Corning Glass. At that time they were sending staff to build a turnkey television tube plant in Lvov.

We are considering the possibility of offering such a week-long course in the future if there is enough interest. Anyone interested should write Marshall Goldman at the Russian Research Center.

In the meantime, we have a partial solution for those who are looking for such a course. The Harvard Alumni Association, in conjunction with the Russian Research Center, is putting on a three-day program entitled "The Soviet Union under Gorbachev: A New Russia?" It is more of an orientation and a quick but intensive immersion into Russian culture, history, politics, and economics. Some corporate executives are being sent to the program to prepare them better for their stay in the Soviet Union. There are still places available and those interested in attending should contact the Harvard Alumni Office directly since they are handling the logistics. A copy of the program is enclosed.

We are also prepared to help in another way. A recent emigre from the Soviet Union has been offering counseling and leading small group discussions for people who are about to go live in the Soviet Union. Her name is Tanya Zieman and she and her family now reside in the Boston area. Her English is excellent and she is highly sophisticated and we have offered to inform our readers of her providing such counseling. Anyone interested should contact Mrs. Zieman directly at (617) 484-2260 or 28 Gilbert Road, Belmont, MA 02178.

Opinions and ideas expressed in this newsletter are those of the author and not the RRC or Harvard University unless otherwise indicated.

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The Harvard Alumni Association
and
The Russian Research Center
of
Harvard University

present

The Soviet Union under Gorbachev: A New Russia?

June 28 - July 1

Wednesday, June 28		
3:00-6:00 pm	Check-in/Registration	North House (for those staying at North House)
3:00-6:00 pm	Check-in/Registration	Lobby Charles Hotel (for those staying at the Charles and for commuters)
6:00-7:00 pm	Welcome Reception	Ballroom Foyer Charles Hotel
7:00-8:30 pm	Dinner *Opening Remarks* Professor Adam B. Ulam Director Russian Research Center	Ballroom Charles Hotel
Thursday, June 29		
8:15-9:00 am	Late Registration	Langdell Hall
9:00-10:30 am	*Background of Soviet Political Culture* Professor Edward L. Keenan Chairman Department of History	Langdell Hall
10:30-11:00 am	Coffee Break	
11:00 am-12:30 pm	*Russia on the Eve of the Revolution* Professor Richard Pipes Frank B. Baird Professor of History	Langdell Hall
12:30-1:30 pm	Luncheon	Ropes Gray Room Pound Hall
2:00-3:30 pm	*The Impact of World War II* Alexandr M. Nekrich	Langdell Hall
3:30-5:30 pm	Optional Discussion Groups and Film ("Repentance")	North House
6:00-7:00 pm	Cocktails	North House
7:00 pm	Dinner	North House

(continued)

ADDENDUM TO PROGRAM, page 4

RUSSIAN RESEARCH CENTER/HARVARD ALUMNI ASSOCIATION CONFERENCE
JUNE 28-JULY 1: **THE SOVIET UNION UNDER GORBACHEV: A NEW RUSSIA?**

Soviet Ambassador Yuri Dubinin will speak at the opening dinner on Wednesday, June 28, at the Charles Hotel.

The Harvard Alumni Association
and
The Russian Research Center
of
Harvard University

Friday, June 30

9:00 - 10:30 am	*Stalin's Russia* Professor Adam B. Ulam	Langdell Hall
10:30-11:00 am	Coffee Break	
11:00 am- 12:30 pm	*Soviet Literature* Professor Donald L. Fanger Department of Slavic Languages	Langdell Hall
12:30-1:30 pm	Luncheon	Ropes Gray Room Pound Hall
2:00-3:30 pm	*Glastnost and Democratization* Professor Timothy J. Colton Department of Government	Langdell Hall
3:30-5:30 pm	Optional Discussion Groups and Film ("Repentance")	North House
6:00-7:00 pm	Cocktails	North House
7:00 pm	Dinner	North House

Saturday, July 1

9:00-10:30 am	*Perestroika: The Economic Reforms* Marshall I. Goldman Associate Director Russian Research Center	Langdell Hall
10:30-11:00 am	Coffee Break	
11:00 am- 12:30 pm	*Soviet Russia and the West* Professor Adam B. Ulam	Langdell Hall
12:30-2:00 pm	Farewell Luncheon *Closing Remarks* *Foreign Trade:* *Its Significance and Implications for the United States* Marshall I. Goldman	Ropes Gray Room Pound Hall

Los Angeles Times Friday, May 19, 1989

The Pied Piper of Democracy

Gorbachev Must Ponder His Impact on China—and at Home

By MARSHALL I. GOLDMAN and MERLE GOLDMAN

What the Chinese leaders never anticipated when they set their date for a summit with Mikhail S. Gorbachev was that the Soviet leader would end up serving as a battering ram for democratization within China. After all, the Chinese weathered an earlier visit by President Bush with no protest by students or anyone else. Indeed, the dissident Fang Lizhi was prevented from attending the President's dinner with no evident repercussions from either the United States government or the Chinese public.

Now, the Chinese leaders must be asking themselves how they ever got into this situation. And Gorbachev himself must be wondering how he came to be perceived as the Pied Piper of democracy. Even with *glasnost* and democratization, democracy in the Soviet Union is a fragile and very incomplete flower. For example, Gorbachev last month reinstituted the law that makes it a crime to criticize or embarrass the Soviet Union. And although he later praised the striking Chinese students, his attitude may have been best expressed with a put-down. "We have our hotheads, too," he said, reflecting his very real concern about equally large, but often violent, nationalist demonstrations he has had to deal with in Armenia, Georgia, the Baltics and Belorussia.

When Gorbachev came to power in March, 1985, he showed little interest in expanding democracy within the Soviet Union. True, he spoke of *glasnost* early on. What he meant, though, was that it is important to criticize wrongdoing and incompetence among bureaucrats—but little more.

It wasn't until a year-and-a-half later, when he saw that his economic reforms were not working, that he began to advocate democratization along with *glasnost*. He realized that he had to do something to overcome worker alienation from the existing system. The Soviet people would simply refuse to exert themselves as long as they saw that the results of their efforts were being drained off by the party and government elite, who were unaccountable to the public. To end this, Gorbachev introduced elections with secret ballots and more than one candidate. There is good reason, however, to wonder if Gorbachev would have resorted to such measures if the Soviet economy had been doing better.

The contrast with China is instructive. Deng Xiaoping began his reforms with some unprecedented economic successes. Rates of growth and improvements in peasant and worker well-being were immediate and real. Deng could afford to ignore political reforms.

Small numbers of intellectuals and students called for more human rights and democratization, but for the most part China's people seemed to be absorbed by and content with their new well-being. As a consequence, party leaders gave little attention to political reform.

Last year, however, the situation in China changed dramatically. The economy began to grow too fast. Despite its abundant labor force, China began to experience bottlenecks, particularly with raw materials and electricity. With the introduction of price reforms, inflation jumped to 18% officially and close to 40% unofficially. Because of earlier disastrous encounters with inflation in the 1940s, Chinese leaders decided to halt the increases in prices even if it meant curbing growth. Among other measures, they suspended many major investment projects. As a consequence, peasants from the countryside hired to work on construction projects suddenly found themselves unemployed, as did many urban workers. In the meantime, prices as well as discontent continued to grow.

Suddenly the voices demanding democratization became louder and more organized. Charges that the children of leaders had unfairly enriched themselves, as well as calls for pluralism and dissent, now began to spread, especially in the aftermath of the impressive Soviet elections in late March. The immediate spark was the death of Hu Yaobang, who had been purged in 1987 for supporting protests by Chinese students. The spark became a fire with the coming visit of Gorbachev, the very dramatic symbol of political change in the Soviet Union. But what gave the voices a mass base was the upheaval in the economy.

As Gorbachev returns home, he will certainly ponder not only his catalytic impact on China, but also its meaning for the Soviet Union. In one sense, he returns a conquering hero, especially among Soviet intellectuals who, like their Chinese counterparts, want democratic reform. But the message may be different among the ordinary people. Students in the Soviet Union have not traditionally precipitated change, but intellectuals and workers have. Watching Gorbachev's impact in China, they might also decide to vent their frustration through mass demonstrations. But their demands may be different. Unlike China, the Soviet Union's problem is not so much political reform, but economic reform and an increase in economic well-being. Because of serious and growing shortages of consumer goods, strikes by Soviet workers have been cropping up all over the country, further disrupting production. In addition, there is increased rationing of basic food products.

Gorbachev must now worry about a comparable massive outpouring. That is not why he went to China.

Marshall I. Goldman is associate director of the Russian Research Center at Harvard University and a professor of economics at Wellesley College. Merle Goldman is professor of Chinese history at Boston University.

"Don't be alarmed, Comrade Gorbachev—that was meant for us!"

U7030-1

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIII, No. 11
July 17, 1989

The State of the Soviet Economy

Our readers will have to wait for our next newsletter in August for a report on the statistical results for the first six months of 1989. For this newsletter, however, we have provided some current data which offers additional background on the current state of the Soviet economy. Perhaps one of the most telling measures of what is happening is the accompanying cartoon. The gentleman is looking at a clothesline entitled "ration coupons" and hanging from the clothesline are coupons for sugar, butter, soap, sausage, vodka, pasta, tea, laundry detergent, and furniture.

Ekonomicheskaia gazeta, No. 24, June 1989, p. 16.

Not all of the shortages which have been widely reported in the Soviet Union are due to a fall in production. Much of the problem is due to the fact that the budget deficit now exceeds 11% of GNP and seems to be growing. At the same time, however, there have been some production problems. The Soviet statistical authorities have just published some data on the production of agricultural products on a per capita basis in kilograms. The figures are for 1986, 1987, and 1988.

PER CAPITA AGRICULTURAL PRODUCTION
(in Kilograms)

Product	1986	1987	1988
Grain	750	747	682
Potatoes	311	268	220
Vegetables	106	103	102
Meat (slaughtered)	64.4	66.9	68
Milk	365	367	372
Eggs, each	288	292	296

As the table indicates, there has been a drop in the per capita harvest of grain consistently since 1986. The same thing holds for potatoes and vegetables. Per capita output of meat, milk, and eggs has increased. Even there, however, there is no guarantee that those goods will be made available in retail shops. These figures refer only to production and we know that there continue to be significant losses between the field and the consumer's kitchen.

While the output of meat seems to have increased over the preceding three years, the news may not be quite so good for 1989. Other data show that meat production for the first quarter of 1989 was only 99% of what it had been the year before.

Income Distribution in the Soviet Union

One of the concerns frequently expressed at the Congress of People's Deputies, held in late May and early June, was the large number of Soviet citizens subsisting beneath the poverty line. It is estimated that one out of every eight people in the Soviet Union receives an income which puts him or her in this category. This particularly affects pensioneers and those citizens of Central Asia with large families. Soviet authorities define an income of less than 78 rubles per capita per month in 1988 as below the poverty line. This classification is reported to encompass 36 million people.

The official Soviet data contained in the accompanying table suggest that the number of people earning less than 75 rubles per month has fallen significantly since 1980. Similarly, the number earning over 250 rubles a month has increased from 1% of the total to 7%. What is unclear, however, is how much these figures have been affected by inflation. The indication is that the decrease in those earning less than 75 rubles is in part a reflection of growing inflation. Those republics earning the most are (in descending order) Estonia, Latvia, and Lithuania. Those earning the least are (in ascending order) Tadzhikistan, Uzbekistan, Turkmenistan, and Azerbajian. In the last instance the low per capita income is partly due to the typical large size of the family which means that the per capita income then turns out to be lower.

Finally, it is worth examining how money is allocated among Soviet families. Those whose per capita income is less than 75 rubles a month spend 52% of their income on food. As might be expected, those earning over 200 rubles a month spend only 28% of their income on food.

Table 2.

Distribution of the Population of the USSR by Average Per Capita Income

Monthly income in rubles:	1980	1985	1988
up to 50 r.	7.3	4.3	2.9
50 - 75	18.5	13.6	9.7
75 - 100	23.2	19.8	15.7
100 - 125	19.5	19.3	17.6
125 - 150	13.2	15.0	15.7
150 - 175	8.2	10.4	12.2
175 - 200	4.7	6.7	9.0
200 - 250	4.1	6.9	10.1
over 250	1.3	4.0	7.1

Table 3.

Distribution of the Population of the USSR by Average Per Capita Income by Selected Union Republics

	Percentage of the population whose per capita monthly income, in rubles, is:				
Republic	up to 75	75-100	100-150	150-200	200 +
USSR	12.6	15.7	33.3	21.2	17.2
Russia	6.3	13.1	34.0	24.6	22.0
Ukraine	8.1	16.8	38.5	22.4	14.2
Uzbekistan	44.7	23.9	22.2	6.4	2.8
Lithuania	3.6	10.7	34.6	27.1	24.0
Latvia	3.2	9.5	31.8	27.2	28.3
Tadjikistan	58.6	20.7	15.5	3.8	1.4
Turkistan	36.6	23.0	25.8	9.4	5.2
Estonia	3.9	9.0	28.0	25.5	33.6

Opinions and ideas expressed in this newsletter are those of the author and not the RRC or Harvard University unless otherwise indicated
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Table 4.

Breakdown of Average Monthly Expenditures on Selected Items as a Percentage of Total Monthly Income

Category	Income level: up to 75	75-100	100-150	150-200	200 +
Food	51.5	42.7	35.83	31.9	28.4
Nondurable Goods	27.4	29.2	30.3	32.0	29.7
Services	8.0	9.8	10.3	9.1	7.9
Taxes, Collections, Payments	3.8	5.7	7.8	8.6	8.9
Other Expenses	8.6	8.5	8.5	9.71	12.0
Savings	0.7	4.1	7.3	8.7	13.1

ADVICE FOR THOSE PLANNING TO VISIT MOSCOW

Whatever the success of perestroika on the domestic front, there are some breakthroughs for foreigners. It is now possible to reserve a hotel room in advance without going directly through Intourist and it is also possible to rent a car through a cooperative.

For those who need a hotel room, it is now possible to reserve a room through an organization called "Spate". They are a joint venture combining Pan Am and Aeroflot. They have an office in New York. In Moscow, they frequently have a representative greeting arriving flights in the baggage claim area, just on the other side of Immigration and Passport Control. Their phone number is 243-48-17 and they are able to offer rooms in the Ukraine Hotel. They are not cheap, but for those with difficulty finding a room, it may prove to be useful information. The rates for a single room are around $150.00 per day.

For those who want to rent a car, it is possible to have a car with a driver from a cooperative in Moscow. The phone number is 924-74-16 or 200-27-79. You should ask for Leonid. The cars are available by the hour or by the day and the rate is cheaper than the Intourist rate.

FOREIGN EXCHANGE RATES
April 12, 1989 to June 7, 1989
Quoted in rubles

	April 12	May 10	June 7
£100 Sterling	106.49	106.05	102.62
100 Aust. Sch.	4.75	4.74	4.69
100 D. Marks	33.45	33.34	33.07
100 D. Guilders	29.64	29.58	29.30
100 U.S. Dollars	62.77	63.19	64.07
100 Fr. Francs	9.90	9.88	9.72
1,000 Jap. ¥	4.73	4.71	4.56
10,000 It. Lire	4.56	4.57	4.55
100 Swiss Frs.	38.02	37.36	38.27
100 Nor. Kroner	9.20	9.21	9.09
1,000 Bel. Frs.	15.97	15.95	15.76
100 Sw. Kronor	9.82	9.84	9.75

Fang Lizhi, the 'Contaminant'

Dissident's Ideas Live in the People—and Inside the Embassy

By MERLE GOLDMAN
and MARSHALL I. GOLDMAN

In our first meeting with Chinese physicist Fang Lizhi and his wife, Li Shuxian, we came to understand why they have so enraged Chinese authorities. They refuse to accept not only the dictates of the Chinese Communist Party but its very legitimacy. Like the prophets of the Bible, as well as fellow physicist Andrei Sakharov and his wife, Elena Bonner, Fang and Li hold to a different—and to many, a higher set of values: human rights, decency and democracy. Neither the Fangs nor the Sakharovs have any patience with the excuse that arbitrary state controls are essential because the masses in China and the Soviet Union are not yet ready for self-rule or democracy. The Fangs and the Sakharovs are iconoclasts in societies where secular icons, arbitrarily decreed by the ruling Communist officials, are not to be challenged.

Why was it, we asked the Fangs, that it was the hard scientists and a small number of literary intellectuals, such as Liu Binyan, who like the Fangs and the Sakharovs were among the first to challenge Communist Party orthodoxy? Why not the social scientists who, after all, presumably specialize in such matters? To Fang, the answer was simple. As a physicist, he had access to scientific literature from the outside world. He recognized that the official Chinese depiction of science differed from what fellow scientists in the outside world accepted. It was scientific criteria rather than political accommodation that affected his thinking and values.

In the same way he came to question official Chinese descriptions of political, social and economic conditions both in and outside China. That meant that Fang and Li were among the first to question not only Mao but the entire Chinese Communist Party system. To Chinese officials, this meant that Fang was a troublemaker and a contaminant to be eliminated.

There is no doubt that Fang's ideas and his actions have had an impact on the democracy movement in China. In many ways, he served as the inspiration for the student demonstrations that occurred in December, 1986. But the irony is that in the recent demonstrations, Fang consciously kept a low profile.

The Chinese authorities, however, must find someone or something to blame, and Fang is a convenient scapegoat. It is so much simpler for the leadership to say that Fang and a few student leaders caused the whole problem. Otherwise, the implication would be that poor political leadership and corruption among officials had provoked the student demonstrations.

By blaming someone prominent like Fang, they also can explain away the chaos and disorders that occurred and the fact that workers and ordinary people as well as students joined in the demonstrations. Since the creation of the Solidarity movement in Poland, there is nothing as frightening for Communist Party authorities as the nightmare that workers may take to the streets to protest not only economic upheaval but political deprivation as well.

Against this background, it may be easier to understand why the Chinese leadership has called for the arrest of Fang and Li, even though of necessity this has created an inevitable fight with the United States. President Bush was embarrassed because he and his staff did not make more of a fuss when the Chinese police kept Fang from attending Bush's dinner in China a few months ago. Providing temporary refuge for Fang and his wife helps to compensate for that earlier show of timidity.

Yet from the Chinese point of view, the safety provided by the U.S. Embassy in Beijing is infuriating. It brings back memories of the 19th Century and extraterritoriality, when foreign governments set up special enclaves and declared themselves exempt from Chinese sovereignty. Under the circumstances, we cannot assume that the Chinese will respect international law and customs that are supposed to protect the operation of foreign diplomats and embassies. Whether we see a repeat of the sacking of the U.S. Embassy in Tehran, we should remember that during the Boxer Rebellion in 1900, the Chinese put embassies under siege for two months. During the Cultural Revolution, Red Guards torched the British Embassy.

Recent Chinese history has been scarred by periodic shifts between rationality and chaos. Admittedly, during the last few years, the Chinese seemed to be moving closer and closer to what appeared to the outside world to be normalcy. Yet we should not lose sight of the fact that rapid change and rapid economic growth can be disruptive, be it in China, Iran or the Soviet Union. The danger is that the conservatives overreact, as they seem to be doing now.

It is tragic that recent events should be reduced to an assertion by the Chinese government that what happened never happened, and to an attack on the U.S. government for sheltering Fang. But in many ways this shows how difficult change can be for totalitarian regimes and how heroic, prophetic individuals symbolise both bravery and hope.

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Trouble aboard Red October

The April submarine disaster was only the latest in a string of Soviet nuclear shipping accidents. Although they have not been officially reported, rumors about them have added to the Soviet public's growing nuclear allergy.

by Gabriel Schoenfeld

THE SINKING OF A MIKE-CLASS Soviet nuclear-powered attack submarine in April, off the coast of Norway, draws attention to the dangers of nuclear-powered shipping. The Soviet press has described the cause of the submarine fire, in which nearly 50 crew members and two nuclear-tipped missiles were lost, as a short circuit. Officials have given assurances that reactors aboard the vessel were intact and shut down when the submarine sank. While the accident appears not to have involved any release of radiation, the tragedy follows several other incidents and near-disasters in the Soviet Union connected with nuclear power and nuclear-powered shipping.

The latest disaster is likely to fuel public fears of nuclear energy that are already widespread in the Soviet Union and that have found political expression in a growing environmental movement. Abroad, the accident, along with new revelations about contamination stemming from the world's worst nuclear accident at Chernobyl and Soviet problems with the disposal of nuclear waste, is adding to doubts about Soviet ability to manage the hazards of nuclear power.

A LEADING SOVIET nuclear safety official, R.V. Nikolskii, has also provided a partial account of a near meltdown of a nuclear reactor aboard the icebreaker *Rossiya* on November 11 of last year. That incident sheds light on a range of serious problems in the nuclear shipping industry, although it received little public attention in the West.

As Nikolskii recounted in an interview in the March 4 issue of *Vodnyi Transport*, the *Rossiya* was moored at the northern naval port of Murmansk, taking on foodstuffs and supplies while routine maintenance was performed on the ship's two nuclear reactors. Problems began when the chief physicist in charge of the maintenance, V. Kuleshev, issued an erroneous command to open a valve, and the cooling fluid surrounding one of the ship's reactors was allowed to drain away. A meltdown of the reactor core was only narrowly averted after the crew took unspecified "further action" and when an emergency backup system kicked in. Nikolskii characterized the incident as "a situation of nuclear danger" and a "situation which could lead to a nuclear accident."

Although the error of the chief physicist was the proximate cause of the incident, the Soviet account of the episode notes that Kuleshev had been kept on watch duty for five days. Such an ordeal is ordinarily reserved for "extreme cases," but the Soviet account acknowledges that before the physicist's own blunder "there was not any emergency situation" to justify the extended watch duty. The physicist had evidently been compelled to work several consecutive shifts on account of ambitious planning targets that led to "storming," an imperative that remains categorical in the Soviet economy despite all attempts at reform. "Storming" is the last-minute rush to complete a task on deadline. Explained the Soviet account: "These violations are committed due to production tasks: finish the work as fast as possible, and sail off."

In his comments about the icebreaker incident, Nikolskii made a puzzling and astonishing reference to inadequate security around Soviet nuclear fleet installations, describing it as "one more problem associated with safety." But he did not explain the nature of the threat that requires a higher security standard. While sabotage has never been mentioned in the Soviet press in connection with any of the latest incidents, it is known that, in the civilian sector at least, the KGB routinely investigates accidents and shutdowns at electric generating stations for evidence of malfeasance.

The Soviet nuclear-powered civilian maritime fleet is evidently suffering from a growing shortage of qualified personnel that is tied in with an acute morale crisis which might explain the heightened concern about security. Housing for sailors and their dependents in the nuclear fleet has been described as "particularly bad," creating what the safety official calls "severe problems for cadre policy." This problem not only afflicts merchant seamen but the Soviet nuclear naval fleet as well. Declassified CIA documents characterize the accommodations for dependents of Soviet nuclear naval seamen as "extremely inadequate," a description that must be considered in relation to the poor quality of even average Soviet dwellings.

Appalling housing conditions are just one factor behind the current personnel difficulties. Soviet nuclear-powered merchant shipping is primarily used to service the northern Soviet coast in the Arctic Sea. The nuclear fleet initially attracted Arctic enthusiasts, Soviets eager to leave frigid Russia for the even colder north. But this initial enthusiasm has waned. Today, according to the Soviet safety official, "cadets do everything possible in order to avoid an assignment on a nuclear vessel." Fear of the atom is not the problem. The motto of the modern Soviet sailor is not "go to sea and see the world," but "go to sea and buy a VCR." Soviet nuclear-powered vessels do not ply foreign routes, and VCRs are not for sale in the Soviet ports of the Arctic Sea.

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THE MIKE-CLASS SUBMARINE and *Rossiya* incidents are only the latest in a long series of accidents aboard Soviet nuclear-powered vessels. Highly sensitive reports from the Central Intelligence Agency's Directorate of Operations, which have now been partially declassified under the Freedom of Information Act, provide graphic details of several previous accidents.[1] The CIA describes the information on Soviet submarine nuclear shipping accidents contained in these reports as "not finally evaluated intelligence," and the source of the raw intelligence gathered by the CIA has been excised from the documents for security reasons. It should be noted that the reliability of "not finally evaluated intelligence" cannot be assessed without access to the sources of the information. That source material could conceivably be uncorroborated information obtained from Soviet emigres. The agency nevertheless gave these accounts sufficient weight to include them in its Intelligence Information Cables and in Foreign Intelligence Information Reports. These documents indicate that safety problems aboard Soviet nuclear ships are a longstanding and intractable phenomenon.

- The most recent report is of a Soviet shipping accident described in a CIA document bearing a 1980 distribution date. The report states: "A nuclear reactor on the Soviet ice-breaker 'Lenin' melted in a sudden catastrophic accident. [deleted] The date of the accident was not mentioned. Scientists [deleted] are known to be working on solutions to such problems with ice-breaker reactors." A separate follow-up report states: "The rumor that the Soviets purposely sank their nuclear ice-breaker 'Lenin' because of radiation was denied [deleted] . . . did say that the Soviets had a serious nuclear accident on the ship involving loss of life and because of radioactivity and repair time the ice-breaker would be out of commission for about three years."
- An incident off the U.S. Atlantic coast in December 1972 is recounted: The "accident occurred in the spaces of the Mine-Torpedo department . . . in the forward section of the submarine and involved nuclear radiation leakage from a nuclear torpedo. Doors were immediately secured in accordance with regulations and some crew members were trapped within the space where the nuclear radiation leakage occurred. . . . The crew members trapped in the forward space initially consumed dry rations that were permanently stored in the compartment, and later they received food through a small opening from the weather deck. Upon arrival in Severomorsk, crew members were permitted to debark the submarine. Several men died shortly after the accident, others later, and the total dead from the accident was [deleted] personnel. The majority of the submarine crew members suffered from some form of radiation sickness."
- The same report tells of an earlier submarine accident in 1968 in which an entire crew of 90 perished when a Northern Fleet submarine failed to return to its homeport of Severomorsk. It states that "after the submarine failed to arrive, authorities waited one or two days and then started a search. Divers found the submarine on the bottom of the estuary to Kolskiy Zaliv. When the submarine was recovered, it was determined that all food had been consumed and it was estimated that the submarine had been at the location for 30 days."
- A dramatic account of a fire erupting aboard a nuclear submarine during naval exercises in 1970 is recounted. The report states that "the fire was fought unsuccessfully, and the submarine captain gave orders for part of the crew to escape to the submarine tender. The political officer, who had not been ordered to leave the submarine, went on board the tender for fear of his life. The captain ordered the executive officer and several crew members, number unknown, to leave the submarine. The executive officer and crew members refused and instead assisted the captain in fighting the fire. The fire could not be controlled and was spreading towards the nuclear reactor. Since there was fear that the nuclear reactor was about to catch on fire, the submarine captain ordered the submarine scuttled. The petcocks were opened, and the interior of the submarine was flooded to prevent the fire from reaching the nuclear reactor. . . . The submarine sank with a 'great loss of life,' but the specific number of casualties was not disclosed."

ALTHOUGH IT IS UNLIKELY that any of these accidents were officially reported in the Soviet press, the Soviet rumor mill has long been known to be faster than the telegraph, and, until the dawn of glasnost, often more accurate than the state-controlled media. Widespread anxiety about nuclear-powered ships may thus stem from rumors that have stirred up a public that has some knowledge, however slight and distorted, about these and other incidents. Earlier this year, these anxieties boiled over in the Soviet Far East when a newly commissioned nuclear-powered container ship, the *Sevmorput*, was temporarily barred from entering the Soviet Union's major eastern ports to unload its cargo.

The $260 million ship, according to the Soviet press, took five years to build and was equipped with a "powerful radiological protection system, double sides, and triple bottom." On its first exposure to cold water its hull cracked. In an unprecedented step, Soviet longshoremen refused to service the wounded vessel. The deputy chief of the port of Magadan publicly spoke against permitting the ship to enter his harbor, declaring: "We still do not have radiation-monitoring equipment, decontaminating solutions, special protective paste."[2] According to the newspaper *Sovetskaya Rossiya* (March 7), "tens of thousands of letters categorically protesting" the presence in the region of the "sea-monster" were sent to the local radio station. The damaged vessel eventually received permission to berth.

The Soviet Union has long demonstrated that it possesses the requisite scientific and engineering expertise to operate a vast and highly developed nuclear industry and maintain a formidable nuclear-propelled fleet. But slipups, shoddy work, and "short circuits" can undo the work of even the finest engineers and the most foolproof of safety features, and it is questionable if the Soviet Union has these safeguards. The flaws in central planning that have brought the Soviet economy to its present wretched state are becoming increasingly visible in every phase of the Soviet nuclear power industry, from the mining and milling of uranium to the operation of nuclear-powered reactors and the disposal of nuclear waste. The technical performance of a highly complex industry such as nuclear power is unlikely to be sustained at a much higher level than the economy as a whole. As one Soviet nuclear safety expert has accounted for current Soviet nuclear power problems: "In conditions where the economic mechanism only stimulates gross output indicators, 'secondary' considerations may be sacrificed for the sake of improving these 'important' indicators. And the safety of the operation of these power stations was, alas, regarded as a 'secondary' indicator."[3] The Soviet Union is now desperately trying to repair its defective "economic mechanism," but Gorbachev's tinkering economic reforms have thus far yielded only shortages and decline.

Despite the Soviet Union's enormous technical prowess, Soviet economic and social ills may be approaching a critical mass, and these are the underlying cause of the current problems with nuclear energy and nuclear-powered shipping. Nikolskii, speaking of the accident aboard the *Rossiya*, warns, "The times have conditioned many people as follows: whatever happens, the station has got to operate and generate energy." Until times change and this conditioning wears off, perhaps the Soviet Union should simply switch its reactors off. □

1. *Declassified Documents Quarterly Catalog*, vol. II, no. 4 (Woodbridge, Conn.: Research Publications, Oct.-Dec. 1985). Dates of many of the documents have been deleted.
2. *Vodnyi Transport*, Feb. 9, 1989.
3. *Izvestiya*, Jan. 15, 1989.

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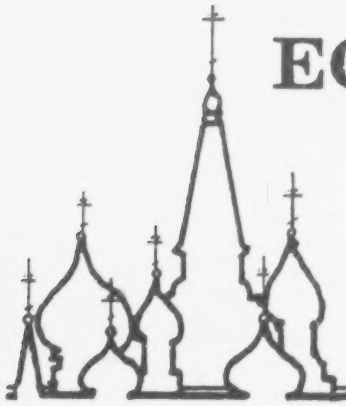

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

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ECONOMIC RESULTS FOR THE FIRST HALF OF 1989

Product	1st Half 1989	1989 as a % of 1988
Electricity (billion kw hrs)	868	101%
Petroleum (million tons)	304	97
Natural Gas (billion meters³)	399	104
Coal (million tons)	386	98
Steel (million tons)	81.1	99.1
Fertilizer (million tons)	18.4	98
Metal-cutting tools (thousand units)	11.9	108
Robots	*	*
Computer tech. (billion rubles)	3.7	115
Tractors (thusand units)	278	98
Paper (million tons)	3.2	100
Cement (million tons)	70.5	101
Meat (million tons)	6.2	100.3
Margarine (thousand tons)	808	95
Watches (million units)	*	*
Radios (million units)	4.2	104
TV sets (million units)	4.9	103
Automobiles (thousand units)	602	91

* not published

LIVESTOCK HERDS
(Million tons)

Herd	As of 6/1/88	As of 6/1/89	1989 as a % of 1988
Cattle	97.5	95.8	98.2%
Cows	28.8	28.6	99.3
Hogs	58.4	59.3	101.5
Sheep Goats	144.7	142.3	98.3
Chickens	789.8	789.2	99.9

MORE BAD NEWS FOR THE FIRST HALF OF 1989

If Gorbachev was hoping that there might be some improvement in economic development in 1989, he certainly cannot find much encouragement in the statistics for the first half of the year. While the overall gross indices do seem to show some continued growth, the individual indices reflect serious problems. For example, while the Soviets report industrial production is up by 2.7%, in specific industries the results appear to be much less favorable, particularly in those sectors affecting consumers. Moreover, because the statistical report for the first six months contains more information than has been the case in previous years, the Soviets are now acknowledging problems that previously they kept secret. The overall impact, then, is quite a depressing one.

In the preamble of the six month report, the statistical authorities acknowledge that "the financial situation of the country and money circulation continues to be in

furniture, dishes, cosmetics, soap, salt, fish, cheese, tea, and even as they explain, "in different regions of the country, there are serious shortcomings in supplying the population with bread and bread products." There are also shortages of potatoes and vegetables. In particular, sales of potatoes have fallen 12% in the first six months of 1989 when compared to the same period in 1988.

On top of everything else, housing construction has also declined and reportedly is far below schedule for the year.

Another disturbing development included in the report is the announcement that the crime rate increased 32% in the first half of 1989. Another innovation in the statistical reporting by the Soviet authorities is that they now publish a figure on traffic deaths. For the first half of 1989, there were approximately 21, 500 lives lost as a result of highway accidents.

The only good news seems to be that VCR production inside the Soviet Union is up 81% and that many of the items in short supply, such as soap, laundry detergent and medicines are being imported in substantial quantities.

Industry

The industrial output figures also give Gorbachev some cause for concern. Electrical energy output is up only 1%, while oil production is down 3% and coal output is down 2%. Natural gas production rose 4%, which is good, but substantially below the typical increase of a few years ago. Steel output is down, as are many petrochemical products. The output of automobiles is down 9%.

Gorbachev also has to worry that his campaign to curb excess construction seems to be failing. The amount of uncompleted construction increased 13% over last year's figure, when there was already open criticism of too much undertaken and not enough completed.

There has also been an increase in pollution, including an oil spill which has affected the resort area of Sochi in the Russian republic.

Foreign Trade

Finally, the Soviets also provide some preliminary information about the foreign trade sector. What is significant is that they report serious problems with their foreign trade balance not only with the capitalist countries, but with the socialist bloc as well. Indeed, there is a report that Soviet visitors to Hungary have been sharply restricted in the number of rubles they can convert into Hungarian florints.

The Soviets also report that they imported 38 million tons of grain in the first 6 months of this year. That is 19% higher than last year.

They also report that there were 680 joint ventures registered with the Ministry of Finance.

Conclusion

While certainly not all industries are showing a drop in production, the results in no way can be considered encouraging. As we look to the report for the third quarter, production will undoubtedly be affected by the massive strikes which occurred during the month of July.

If allowance is made for inflation, then there is reason to wonder if indeed there has been any increase in real output. These clearly are difficult times for those responsible for economic growth inside the Soviet Union.

LIVESTOCK HERDS

Except for the swine herd, the livestock herds are all down. That is a bit unusual because in the past few years, the chicken flocks have appeared to increase continuously. Now even the size of the chicken flocks seems to be falling.

CORPORATE SPONSOR SEMINARS FOR 1989

The Russian Research Center has organized three corporate seminars for this fall. The first will be held on Friday, September 15, 1989. It will be held at 1737 Cambridge Street in the Russian Research Center itself. The topic is "The Major Non-Slavic Nationalities of the Soviet Union," and will be sponsored with the support of the John M. Olin Foundation, as part of the regular corporate sponsor series. A copy of the program and a registration form are enclosed with this newsletter.

Later in the fall, there will be another John M. Olin supported seminar. This will be our annual conference intended to provide an orientation for journalists. This will be held as usual at the Harvard Faculty Club and is scheduled for Monday, November 6, 1989. We believe that Dr. Nikolai Shmelev of the Institute of USA and Canada will be joining us to discuss economic reform. This is subject to final confirmation, of course, but the odds are 50-50 that he will be able to join us.We have not received confirmation from all the invited speakers, however, we have received confirmation from Philip Taubman and Felicity Barringer, formerly the Moscow bureau chief and a reporter for The New York Times. The topics under discussion will include the current state of arms control, Soviet foreign policy, the political situation internally and externally, and a look at the Soviet economy.

Finally, an innovation for the Center will be a one-day conference on joint ventures, sponsored jointly with the Washington law firm of Heron, Burchette, Ruckert & Rothwell. This conference will be held on Monday, November 13, at the Harvard Faculty Club. This will be the first instance in which the Russian Research Center has jointly sponsored a conference of this sort and we expect to have speakers from the Soviet Union, as well as those actively engaged in joint ventures in Western Europe.

Application forms for all three conferences are enclosed in this mailing.

FOREIGN EXCHANGE RATES
June 7, 1989 to July 12, 1989
Quoted in rubles

	June 7	June 28	July 12
£100 Sterling	102.62	99.85	102.18
100 Aust. Sch.	4.69	4.69	4.78
100 D. Marks	33.07	32.97	33.68
100 D. Guilders	29.30	29.28	29.87
100 U.S. Dollars	64.07	64.30	62.88
100 Fr. Francs	9.72	9.71	9.92
1,000 Jap. ¥	4.56	4.59	4.52
10,000 It. Lire	4.55	4.55	4.64
100 Swiss Frs.	38.27	38.39	39.06
100 Nor. Kroner	9.09	9.05	9.13
1,000 Bel. Frs.	15.76	15.77	16.08
100 Sw. Kronor	9.75	9.73	9.81

Opinions and ideas expressed in this newsletter are those of the author and not the RRC or Harvard University unless otherwise indicated
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ANDREI SAKHAROV AND YELENA BONNER VISIT THE RUSSIAN RESEARCH CENTER

On August 3, the renowned dissidents Andrei Sakharov and his wife Yelena Bonner addressed officials of Harvard University and the Fellows and guests of the Russian Research Center at a luncheon at the President 's House. Speaking in Russian and assisted by an interpreter, Sakharov expanded on a number of issues of critical importance to the leadership of the Soviet Union today and warned that the failure to resolve many of these problems could result in crisis for the entire country.

Turning first to the economic situation, Sakharov declared the country to be on "the brink of a financial catastrophe." He attributed the present state, with severe shortages of consumer goods and a proliferating black market, to a number of factors, including the climate into which Gorbachev had introduced his policy of *perestroika*, and certain deep-rooted and persistent illusions about society. Among other things Sakharov deplored the rigid social stratification of the country, which elevates the nomenklatura to the summit of society and relegates 40 million Soviet citizens to existence below the poverty line. He predicted that an economic collapse would occur in 1-5 years.

Sakharov spoke next about the catastrophic environmental and ecological situation in the Soviet Union, noting that some areas of the country were "already close to physical annihilation." He blamed this problem on the fact that each region is managed by departments which put their own interests ahead of those of the country as a whole, without the threat of fines or other penalties, and on the mismanagement of funds and other resources.

Sakharov went on to discuss the ethnic strife in the Soviet Union: "We used to say that our country was one of 'the friendship of all peoples,' but this illusion too has been swept away." He focused on the events in Uzbekistan which took place during the sessions of the Congress of People's Deputies, saying that they revealed the Soviet Union's status as the last colonial empire in the world. In particular, he asserted that the Uzbekistan tragedy was a result of the republic's being forced to cultivate cotton exclusively, the ramifications of which included hunger, illiteracy, pollution, and disease, among other things.

Sakharov reiterated that *perestroika* is not working, and cited as the root of the problems the structure of the political system, which he said cannot change because it does not want to change: "The Congress of People's Deputies rendered a clear guilty verdict against the system." But while the Congress has provided a crucial political lesson, it has failed to offer concrete measures for adoption, and Sakharov warned of the possibility of a military coup if no real progess is achieved. The state is "at a historical moment," he said, and the "perfect balance point" must be maintained to stave off worsening crisis.

Yelena Bonner took the stand as well, calling the miners'strike a positive phenonomen and an inevitable one, as nothing concrete had resulted from the Congress. Praising Gorbachev as an "intelligent, perspicacious" leader, she stated nonetheless that the Soviet Union needs assistance from the West, but worried over the timing of such assistance given the present situation "when we don't know where Gorbachev is going." If the West were to intervene today, the pressure on Gorbachev from below would be lessened, diminishing the urgency of moving forward with concrete reforms.

In response to questions from the audience, Sakharov and Bonner noted that the dominant atmosphere surrounding the Congress was one of hope, but that the most important follow-up to the exhilaration surrounding the Congress must be the "realistic application of the perestroika policy."

Fueling the Soviet Strikes: 'Where's the Borscht?'

By MARSHALL I. GOLDMAN

When Soviet miners began to walk out of the coal pits, they brought to a head the most serious challenge facing Mikhail S. Gorbachev—how to improve the life of the Soviet consumer. This is a paradoxical situation. Outside the Soviet Union, Gorbachev is applauded as the world's leading statesman. Within the country, however, he is criticized because of what most Soviet citizens see as the deterioration of their day-to-day standard of living.

Having just returned from Moscow, I can understand why the miners have been moved to take such extreme action. They, like their comrades all over the Soviet Union, find themselves facing shortages that never existed even in Leonid Brezhnev's "years of stagnation." Admittedly, the supply of consumer goods has always been erratic in the Soviet Union. But not since the late 1940s have there been so many shortages at once. Even Moscow, a city usually well supplied, now has had shortages in the last month that encompass not only meat, milk and butter, but cheese, sausage, sugar, tea, matches and even salt.

The consumer supply situation is no better outside the capital, and often quite worse. That is why the miners' demands include such unusual concerns as soap, laundry detergent and disposable syringes, as well as more and better apartments. Nor is this likely to be just a temporary crisis. Otto Latsis, a leading Soviet economist, has predicted that if the shortage of goods that began in 1988 continues for another year, "there will be empty shelves and trade will simply cease to exist."

Because they see no end to the deteriorating economic situation, the miners in the Kuznets Basin of Siberia decided to protest in the only way available to them. They were not the first to do so.

Already this year there have been more than 100 strikes throughout the Soviet Union.

This is one unintended consequence of *glasnost*. There were periodic strikes in the pre-Gorbachev days, but they were never publicized. Now the miners appear on television, and this gives ideas to others whose economic situation is no better. As a result, there are now more workers on strike in the Soviet Union than at any time since the revolution. This is hardly a comforting thought for Gorbachev or the conservatives around him who already fear that the society is beginning to unravel.

The tragedy, particularly in the coal industry, is that the strikes are bound to cause even more economic shortages. Coal accounts for 20% of the Soviet Union's energy supply. Already there are fears of more brownouts. Some metallurgical factories have already begun to cut back on production for fear they will not have enough coal to operate. Coal is also important for the operation of the already overburdened Soviet railroads. If some trains are canceled for a lack of fuel or electricity, the economic system may soon come to a halt.

To answer the miners' demands, Gorbachev will have to come up with more consumer goods. But since there are shortages all over the country, he will probably have to search for supplemental supplies outside the country. This will take convertible currency, which the Soviet Union lacks—so it will have to borrow. Even then, the imported goods may soon disappear into the black market. The problem is that the Soviet budget is unbalanced. The budget deficit exceeds 11% of the gross national product. The only way Gorbachev can pay the government's bills is to print money. No wonder that in 1988 the money supply increased twice as fast as it did in 1987. This extra money has fueled inflation, which now exceeds 10% a year.

These are not easy days for Gorbachev. He has been in power for more than four years now and the people are begining to ask, "Where's the borscht?"

It is not enough that he had to worry about cooling tempers between different nationality groups within the Soviet Union. So far, he has been unable to resolve any of these conflicts and if anything, the number of skirmishes seems to be increasing.

In the same way, the economic conflicts show no sign of diminishing. To end the strike Gorbachev has agreed to grant some concessions to some of the miners. But this is likely to lead to more strikes because other groups are likely to conclude that striking is the only way to improve their lot. This of course only causes more economic stress.

All this is too much for some, especially the conservatives. They attribute the strikes as well as the ethnic rioting to Gorbachev's permissive policies. They also blame him personally for the economic shortcomings of the *perestroika* process.

Gorbachev is not the only leader in history to be applauded overseas and criticized at home. However, if he is to continue in power, he will have to perform near-miracles at home. Unfortunately, the prospects are not very bright.

Marshall I. Goldman is a professor of Soviet economics at Wellesly College and associate director of the Russian Research Center at Harvard University.

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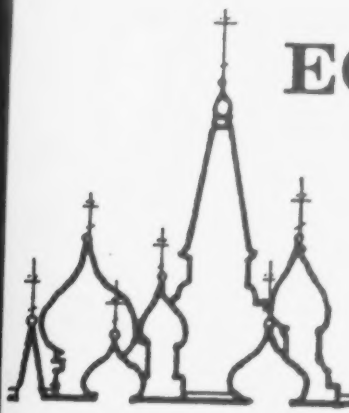

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIV, No. 1
September 2, 1989

GLASNOST' IS CURRENTLY HALF A GLASS

The Soviets continue to hold back information that they published regularly only a year or so ago. We now receive industrial output figures every quarter rather than every month, and a look at the report for the first six months of 1989 suggests why: the news is not very good. In addition, however, the Soviets apparently have now stopped publishing quarterly foreign trade figures as well. We will have to see if they publish them after six months. Thus far, we have not been able to find a report for the first quarter of 1989. If any of our readers know where to find it, please let us know.

In the meantime, however, we will do as we have done before and publish statistical information that the Soviets have recently made available which we think might be of interest to our readers.

Preliminary Results of the 1989 Census

The Soviets have just published some data on the size of the population on January 12, 1989 and compare that with the size of the population in 1979. Table 1. indicates the breakdown by republic and by urban and rural, as well as the change from 1979. What is particularly striking about the data is that the largest increase in population occurs as we have been led to expect, in the Moslim republics of Central Asia. The republic with the largest growth was Tadzhikistan, which showed a 34% increase. Next was Uzbekistan with 29% and Turkmenia with 28%. Kirgizia, also in Central Asia, and Azerbaidzhan, located in the Caucasus, are next. The only other republic with a large birth rate is Moldavia.

It happens that the republics have predominantly rural populations. It is the city folks who tend to have lower birth rates.

The Size of Soviet Savings Bank Deposits

The Soviets have also provided some information about the relative size of savings bank deposits. This was based on a sample of 5% of depositors. As Table 2. indicates, .002% of all savings bank deposits are over 50,000 rubles, which would be equivalent to about $65,000 to 70,000. That would mean that there are approximately 4,000 such depositors. This, of course, does not refer to money that is being kept in the mattress, but the implication is that there are some very wealthy depositors inside the Soviet Union and they feel their money secure despite the lack of FDIC guarantees.

Relative Productivity

In a somewhat ambiguous statistical presentation, the Soviets provide an indication of how effectively the national income in the Soviet Union is used. There doesn't seem to be anything quite like this calculation in the West, but based on the Soviet data, the most effective use of national resources is in Estonia, followed by Latvia, the Russian Republic, and Lithuania.

This suggests how important the Baltic region is to the country as a whole, and why the movement towards national independence and succession by these republics is so fundamental to the Soviet Union.

CORPORATE SPONSOR SEMINARS

As the school year begins, the Russian Research Center is presenting a full program of Corporate Sponsor Seminars. In conjunction with the John M. Olin Foundation, the first seminar will be held on September 15, 1989 at the Russian Research Center. The Center's address is 1737 Cambridge Street and the seminar will take place in meeting room number 2, on the first floor of the building. As the accompanying program indicates, the seminar theme is nationalism among ethnic minorities in the Soviet Union, a particularly timely subject.

Later in the semester, we will host a second John M. Olin Foundation supported seminar, an orientation for journalists. As has traditionally been the case, this seminar will be held at the Harvard Faculty Club, 20 Quincy Street, in Cambridge. We have enclosed the program as it stands at this point. We do anticipate adding one or two more speakers, but hope that the enclosed program will provide our readers with enough of an idea of the basic conference outline.

Finally, we have organized a third seminar, to be held in conjunction with the Washington law firm of Heron, Burchette, Ruckert & Rothwell. This seminar will exam the development of joint ventures in the Soviet Union. We expect to add some additional speakers to this program as well, but have had so many requests for some information, that we are enclosing the program and application form. We urge those interested in attending to reserve space now.

Note:

The missing column from the August 1989 issue of the News is included here on page 4. We apologize for the inconvenience.

FOREIGN EXCHANGE RATES
July 12, 1989 to August 2, 1989
Quoted in rubles

	July 12	Aug 2
£100 Sterling	102.18	104.13
100 Aust. Sch.	4.69	4.77
100 D. Marks	33.07	33.52
100 D. Guilders	29.30	29.73
100 U.S. Dollars	64.07	62.64
100 Fr. Francs	9.72	9.89
1,000 Jap. ¥	4.56	4.55
10,000 It. Lire	4.55	4.66
100 Swiss Frs.	38.27	38.91
100 Nor. Kroner	9.09	9.14
1,000 Bel. Frs.	15.76	16.02
100 Sw. Kronor	9.75	9.81

See Table 1. on Page 3.

TABLE 2.
DATA ON SAVINGS BANK DEPOSITS

Deposit Balance	Specific Share	
	% of total accounts	% of total deposits
up to 300	33.3%	2.4%
300 - 1,000	22.9	9.7
1,000 - 2,500	24.6	25.4
2,500 - 5,000	12.4	27.8
5,000 - 10,000	5.7	24.5
10,000 - 25,000	1.1	9.6
25,000 - 500,000	0.03	0.5
over 500,000	0.002	0.1

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TABLE 1. CENSUS DATA BY UNION REPUBLIC

	Population as of January 12, 1989			1989 as a % of 1979	1989 as a % of entire pop.	
	Total	Subcategories				
		Urban	Rural		Urban	Rural
USSR	**286717**	**188791**	**97926**	**109%**	**66%**	**34%**
RSFSR	147386	108419	38967	107%	74%	26%
Ukraine	51704	34591	17113	104%	67%	33%
Belorussia	10200	6676	3524	107%	65%	35%
Uzbekistan	19906	8106	11800	129%	41%	59%
Kazakhstan	16538	9465	7073	113%	57%	43%
Georgia	5449	3033	2416	109%	56%	44%
Azerbaidzhan	7029	3785	3244	117%	54%	46%
Lithuania	3690	2509	1181	109%	68%	32%
Moldavia	4341	2037	2304	110%	47%	53%
Latvia	2681	1907	774	106%	71%	29%
Kirgizia	4291	1641	2650	122%	38%	62%
Tadzhikistan	5112	1667	3445	134%	33%	67%
Armenia	3283	2225	1058	108%	68%	32%
Turkmenistan	3534	1603	1931	128%	45%	55%
Estonia	1573	1127	446	107%	72%	28%

TABLE 3. PRODUCTION AND UTILIZATION OF NATIONAL INCOME (Estimated per Capita)

	Production		Utilization	
	1980	1985	1980	1985
USSR	**100**	**100**	**100**	**100**
RSFSR	113	115	114	115
Ukraine	89	91	87	88
Belorussia	110	113	95	96
Uzbekistan	63	58	68	61
Kazakhstan	79	77	93	96
Georgia	91	99	90	97
Azerbaidzhan	85	83	65	66
Lithuania	98	103	108	109
Moldavia	85	82	82	80
Latvia	131	127	122	126
Kirgizia	59	58	68	65
Tadzhikistan	56	50	61	56
Armenia	96	93	82	83
Turkmenistan	70	66	67	70
Estonia	125	121	130	130

difficulty." Part of the problem is due to the fact that the wage fund rose by 9.5% in the first six months of 1989, although it was only supposed to increase by 3.5%. As a consequence, the average montly wage rose 10% while it was only supposed to increase by 3%. Other reports published recently suggest how this has happened. In large part it is due to the fact that the budget deficit is now estimated to be close to 14% of GNP, an increase over a few months ago, when it was estimated at 11% of GNP. This also in part accounts for the fact that during the first six months of 1989, the increase in the money supply was one-third larger than the comparable increase a year earlier.

The Soviets also openly talk of unemployment. The report indicates that 6 million people were unemployed, half of whom were in Central Asia, Kazakhstan and the the Caucasus.

Another reflection of some of the social tensions in the country is illustrated by the acknowledgement that the strike situation even before the coal miners went out on strike was serious. In the first half of 1989, Soviets report a loss of workers' time equal to more than 2 million man-hours. They estimate that on average approximately 15,000 workers are out on strike on a given day.

At the same time that wages have been increasing for some, the Soviets also report that over 12% of the population receives an average wage of less than 75 rubles per month. For comparisons sake, the Soviets report that the average monthly wage is 236 rubles.

Supply of Consumer Goods

Perhaps Gorbachev biggest problem is his inability to reduce the shortages of consumer goods that have appeared. In some cases, production has increased, but not on a per capita basis and not enough when taken in conjunction with the increase in hoarding that has occurred. The Soviets acknowledged that now there are shortages of such products as television sets, refrigerators, washing machines, sewing machines, motorcycles, bicycles,

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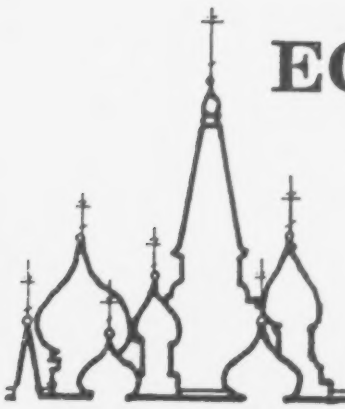

ECONOMIC NEWSLETTER

Russian Research Center
Harvard University

Volume XIV, No. 2
October 16, 1989

Soviets Announce Convertible Currency Auction

Under the auspices of the Vneshekonombank (the Foreign Economic Bank), the Soviets plan to hold their first currency auction on November 3, 1989. Authorized under decrees announced March 12, 1988 and March 15, 1989, this currency auction will be limited to government enterprises, holding companies and organizations. There is no indication that foreign firms or joint ventures will be allowed to participate.

Under the terms of the auction, prospective buyers and sellers must submit their bids by no later than October 27. They must indicate how much they would like to buy or sell, the purpose for which the money is intended if the enterprise is buying hard currency ,and the rate that the buyer and seller are willing to pay. In case of tie bids, the bank will decide which goal has the higher priority and will award the foreign currency to that enterprise. Those interested in buying foreign currency must pay a fee of 200 rubles for participating in the auction and those offering to sell hard currency must agree to pay a fee equal to one percent of their sales but no more than 1,000 rubles.

The minimal sum that must be sold in rubles must exceed 50,000 rubles; however, the minimal sum to be purchased by those selling the hard currency must equal at least 10,000 rubles. Clearly Soviet authorities are trying to facilitate sales of hard currency because they evidently anticipate that there will be more readiness and eagerness to buy convertible currency than there will be to sell it.

However limited this initial effort is, it is nonetheless an important first step. If the auction is ultimately to be a success, it must be held with regularity and must also be open to foreign enterprises. Nonetheless it is a beginning and as the Soviets themselves acknowledge, it is an action unthinkable a few years ago.

The Soviets Experience Problems in Oil Production

Again, because of the lack of statistics, we will have to wait until the November newsletter for a report on third quarter output. As we have mentioned in previous editions of this newsletter, glasnost' has taken a major step backwards in that data which in the past was released monthly and quarterly now appears yearly and sometimes semi-annually.

In any case, the Soviets have announced at a Supreme Soviet meeting that oil production for the first eight months of 1989 is more than 10 millions tons below the comparable figure for 1988. This is a drop of over 3%. The acknowledgment by the First Deputy Prime Minister Lev Voronin that this has happened is accompanied by a discussion of the fact that under *perestroika*, the system seems to be breaking down. No one seems to know who is in charge and there is general disorder occurring

in the petroleum industry. As a consequence, many of the gains that were made earlier when Gorbachev made a personal visit to the Tyumen oil fields have now been lost. This is a serious setback and could have implications for Soviet purchases of goods in the hard currency world. It will also place more strain not only on the domestic energy supplies but also on their ability to continue their petroleum exports. Already there have been many complaints about the lack of fuel needed to run Soviet tractors during the harvest.

Soviets Announce Budget for 1989 and Proposed Budget for 1990

Given a budget deficit which according to some reports is equivalent to 13% of the GNP, the Soviets have been making major efforts to slash expenditures. This is reflected in part by a comparison of the 1989 budget which was approved last year and the prospective budget just recently offered for 1990. There are several factors that are worth noting. Total budget expenditures were to fall from 495 billion rubles in 1989 to 488 billion in 1990. The contraction will be accounted for in part by a reduction in the amount invested by the budget in industrial production. That will fall from 199 billion rubles to 187 billion. A major share of that drop will be attributable to the fact that the Soviets plan to reduce capital investment from 70 billion rubles in 1989 to 40 billion in 1990. The reduction will be offset, however, by a need to increase subsidies in food production. Thus subsidies will rise from 88 billion in 1989 to 96 billion in 1990.

There will also be an effort to increase what the Soviets call the non-production sphere of social and cultural financing. That will rise, as the accompanying table shows, from 144 billion rubles to 159. The major reason for the growth is an increase in pensions and social security expenditures.

The Soviets also hope to reduce their financing of foreign trade. However they acknowledge that there will be an increase in servicing costs for their past debts. The Soviets also assert that the military budget will be reduced from 77 billion rubles to 71. This figure remains questionable because they have only recently acknowledged that the budget figure was 77 billion in 1989. They were reluctant to do that and indeed were using old and now disavowed figures for some time.

Looking at the budget as a whole, what stands out is that the Soviets are trying to cut back on expenditures, particularly investment in industry and the military budget. However while they do that, they also recognize that they have to do something about their dismally low pensions and the need to continue subsidizing consumer goods. In a sense it is a race to see whether they can reduce the budget enough to stop the inflation in order to obviate the need for even larger subsidies.

FOREIGN EXCHANGE RATES
August 30, 1989 to September 13, 1989
Quoted in rubles

	Aug 30	Sept 13
£100 Sterling	100.82	100.10
100 Aust. Sch.	4.66	4.64
100 D. Marks	32.81	32.60
100 D. Guilders	29.10	28.95
100 U.S. Dollars	64.44	65.13
100 Fr. Francs	9.74	9.67
1,000 Jap. ¥	4.47	4.40
10,000 It. Lire	4.58	4.55
100 Swiss Frs.	38.06	37.75
100 Nor. Kroner	9.01	8.98
1,000 Bel. Frs.	15.70	15.61
100 Sw. Kronor	9.72	9.70

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STATE BUDGET EXPENDITURES FOR 1989 AND 1990

	1989 Confirmed		1990 Projected	
	Sum	% of Total	Sum	% of Total
Budget Expenditures	494,8	100,0	488,2	100,0
I. Material production and science sphere				
Financing of the national economy	199,4	40,3	187,4	38,4
of which:				
-financing centralized capital investment	70,3	14,2	40,5	8,3
-subsidies for food production	87,8	17,7	95,7	19,6
-financing science	7,5	1,5	11,0	2,3
II. Nonproductive sphere				
Financing sociocultural measures	143,4	29,0	158,8	32,5
of which:				
-education, culture, and art	46,9	9,5	48,9	10,0
-health and physical culture	24,9	5,0	26,7	5,5
-social insurance and social security	71,6	14,5	83,2	17,0
Financing central measures for increasing living standards	4,2	0,8	9,8	2,0
III. Foreign economic expenditures, total				
of which:	31,4	6,3	26,0	5,3
-financing foreign trade	10,8	2,2	7,4	1,5
-government credits and the rendering of foreign aid	12,5	2,5	9,7	2,0
-service of the foreign debt	5,3	1,1	6,2	1,3
IV. Centralized social needs				
of which:				
-financing defense	77,3	15,6	70,9	14,5
-financing government operations	2,8	0,6	2,9	0,6
-financing law and order of organizations	8,6	1,7	8,8	1,8
V. Servicing the government internal debt	7,2	1,5	8,8	1,8
VI. Reserve of money funds	3,7	0,7	4,1	0,8

Corporate Sponsor Seminars

Enclosed are the programs for the next two Corporate Sponsor Seminars: our journalist orientation on November 6 and a joint venture conference, organized with the law firm Heron, Burchette, Ruckert & Rothwell, on November 13th. Please note that we have added a Soviet journalist to the list of speakers for the November 6th conference. In addition, Mr. Peter von Braun, of the Phoenix Group International, will be speaking on November 13th. The Phoenix Group is a partner in a venture to supply and produce in the Soviet Union three million personal computers by 1994.

A delegation of Soviet economists will be visiting the RRC in mid-November and we are hopeful that they will also be able to participate in our two upcoming conferences.

Stay Tuned For The Next Episode Of 'The Perils of Gorby'

Despite everything, he emerges stronger politically from each crisis.

By Marshall I. Goldman

WHAT IS happening in the Soviet Union?

On the one hand, Mikhail Gorbachev purges three of his major critics from the Politburo. On the other hand, he is not able to remove his most important rival, Yegor Ligachev, and Gorbachev's stewardship as the country's chief administrator has produced serious failures. The country seems to be in continual crisis. If it is not fighting between the Armenians and Azeris, it is a call for secession from the Soviet Union by nationalists in the Baltic states and Moldavia. And if it is not a nationwide strike by Siberian and Ukrainian coal miners, it is the imposition of sugar, sausage and even soap rationing throughout large parts of the Soviet Union.

Yet, as his most recent purge of the Politburo shows, somehow Mikhail Gorbachev seems to emerge from each crisis still in charge. It brings back memories of the "perils of Pauline." Each time our hero finds himself in an inescapable trap, and each time he somehow manages to escape, only to confront what seems to be yet another unsurmountable challenge. How long can he continue this way?

Were an opinion poll to be taken in the non-Communist world, there is little doubt that Mikhail Gorbachev would be voted the most-admired politician in the world. Ironically, were the same poll to be taken in the Soviet Union, the likelihood is that he would not do so well. It took someone like Boris Yeltsin, one of Gorbachev's critics from the Left, to impress on the American public during his recent visit that we are two years behind the times. Gorbachev's perestroika and glasnost were big hits in the Soviet Union during the first two or so years of Gorbachev's leadership, but they are not nearly as popular now. In fact, as Yeltsin repented over and over, because of Gorbachev's policies, the Soviet Union today "stands on the edge of an abyss."

Danby, Bangor Daily News

Despite the richness of its raw materials, the Soviet Union was never a country of abundance, but under Gorbachev there are now more shortages. This is a direct consequence of Gorbachev's early decision to cut back on consumer goods imports and stress machine tool production instead. Wages were being paid, but there were fewer goods to spend the money on. The result was rising prices, which in turn ignited the shortages.

Since there were no stocks or high-interest savings available, Soviet consumers quickly realized that hoarding was the only way to protect whatever money they had. In the view of many Soviet economists, the shortages that ensued were the worst since World War II.

A visitor to Moscow went into a meat store: "Do you have any sausage?" "No," came the reply. So the visitor wrote on a pad he carried: "No sausage." After visits to neighboring shops, his list continued: "no fish," "no milk," "no sugar," "no tea," "no matches," "no laundry detergent" and even "no salt." Finally a man in a leather coat accosted the visitor and demanded to know what he was doing. "Well, I haven't been to Moscow for forty years and my wife asked me to make notes on what the city is like today." Retorted the man in the leather coat, "Forty years ago, you would have been shot for this." Once more, the visitor took out his pad; this time, he wrote "no bullets."

This Moscow story reflects Gorbachev's dilemma. The economic reforms are not working, but many of the political reforms are, and thus people feel freer to express their frustrations. When the miners went out on strike, it was with the knowledge that they would not be shot or sent to prison or psychiatric hospitals as they would have been under Joseph Stalin and even Leonid Brezhnev.

And why did they strike? It was not so much an issue of more money — what the miners wanted was a ration of more than one bar of soap every three months.

The decline in the real standard of living that has taken place in the last two years has also exacerbated the nationality tensions. There would be considerably less pressure to secede from the Soviet Union if the country were prosperous. With such serious shortages, no wonder the Estonians and Lithuanians have forbidden the sale of scarce goods to shoppers from the Russian republic, particularly Moscow and Leningrad.

The Baltic peoples are also seeking to issue their own currency. If the ruble had real value, there would be no such problem. After all, while the Soviet people are demanding disintegration, the West Europeans are seeking closer integration.

So far, Gorbachev has survived each of these economic disasters. First he threatens, then he calls for reason and ultimately he promises some economic relief, even if it means larger budget deficits. And oddly enough, in the process he seems to become stronger politically. As this week's purges show, he continues to outmaneuver his party rivals. In addition to carrying out the purge, he forced them to convene the party congress four months earlier than scheduled. Moreover, in a masterful display of political adroitness, he has eviscerated the once-powerful Secretariat of the Central Committee. That as well as Gorbachev's weeding out of the Politburo was a way of reducing the power base of Yegor Ligachev, the leader of the opposition from the right. For that matter, when Gorbachev created a meaningful Supreme Soviet, most of whose members were selected in secret elections, he also reduced the power of the Politburo and the Central Committee itself.

The appearance of a robust Supreme Soviet may at least in part explain Gorbachev's continuing survival. This Supreme Soviet serves as a vent for the country's economic and political frustration and bitterness. This was an outlet unavailable to the students in China.

'As Yeltsin repeated over and over, the Soviet Union today "stands on the edge of an abyss." '

Undoubtedly, the switch in political power from the Party to the Supreme Soviet has helped Gorbachev in some of his latest confrontations. Yet what worked so well recently may indeed have set the stage for Gorbachev's newest crisis. What does Gorbachev do when he finds himself with anarchy in the Caucasus and calls for secession in the Baltic? Just as in the past, he has issued orders to local party leaders. He has told them to fall in line with Moscow's policy. But now the local party leaders complain to Gorbachev that in the aftermath of the creation of the Supreme Soviet, they and the local parties have lost power and cannot do as he orders, particularly as the economic situation continues to deteriorate.

Admittedly, Gorbachev has escaped from similar "impossible" straits before. And the new Politburo lineup shows he still has political muscle. But unless he can improve day-to-day economic life and do it soon, it is hard to see how he will manage to survive his continuing adventures, particularly if in the process he destroys the very institutions that have been the source of his past power.

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Gorbachev Shows Off, but Soviets Wonder 'Where's the Beer?'

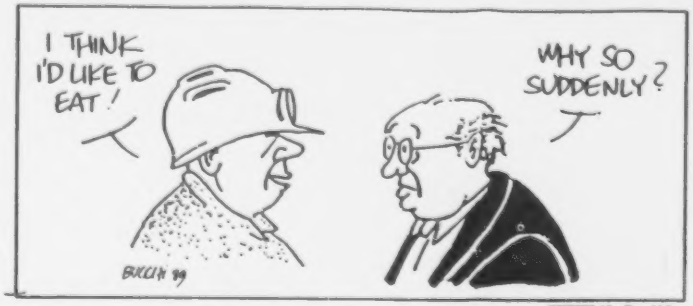
By MARSHALL I. GOLDMAN

The timing is perfect. Rumors have been circulating in Washington and other capitals that Soviet President Mikhail S. Gorbachev is in trouble, that there will be a coup and that George Bush should not negotiate with Gorbachev because he may not be there next year.

What better way to impress on the world that Gorbachev is still very much in command than to conduct an old-fashioned purge of the Politburo, timed for the day before Foreign Minister Eduard Shevardnadze arrived to start negotiations with Bush and Secretary of State James A. Baker III.

Without doubt, this latest purge shows just how strong Gorbachev is. It is amazing how easily he can reshape the Politburo, the party's main governing body. A comparison of the Politburo roster in March, 1986, a year after Gorbachev's takeover, with the roster today shows that six, or one-half, of the members have been purged. A few months ago, Gorbachev single-handedly emasculated the Communist Party secretariat, which was also the power base of Gorbachev's conservative opponent, Yegor Ligachev. To undercut Ligachev, Gorbachev simply abolished the secretariat.

Equally important, Gorbachev has weakened the party itself. He correctly came to see that senior party bureaucrats were the most determined opponents of his *perestroika* and *glasnost* efforts. The easiest way to eliminate such resistance was to create some other source of power. That was a major consideration for his decision to create a Congress of Peoples' Deputies and a Supreme Soviet whose members in large part would be elected in secret, and in contested elections. The Supreme Soviet today more closely resembles a Western parliament than anything else that has ever existed in the Soviet Union. Just as Gorbachev intended, it has begun to assume powers formerly exercised by the Politburo.



BUCCHI / La Repubblica
Rome

But there is more involved in this most recent purge than just the flaunting of Gorbachev's political power. What remains to be seen is if this political muscle can be translated into more effective social and economic policies. Indeed, this change of leadership reflects not only Gorbachev's strengths but the troubles he is having in trying to reshape the Soviet economy.

Most Soviet economists agree that *perestroika* is not working, and that under Gorbachev, the real standard of living has actually deteriorated. For example, rationing for such basic products as meat, milk and even salt and soap has been introduced in most of the Soviet Union. For the first time since 1947, Moscow has sugar rationing. No wonder workers are striking and some ethnic groups are calling for secession. As an astute political observer, Gorbachev knows the public is eager for some sign of change.

He also knows that change in the composition of the Politburo is not the same as the revitalization of the Soviet Union. There is a fairy tale Russians like to tell. A group of monkeys decided to organize an orchestra. The leader passed out instruments, but all they heard was noise. "I know what's wrong," said the leader. "We are sitting in the wrong chairs!"

There are new members in new chairs, but *perestroika* seems much as it was before. Gorbachev has appointed some officials from regions where there has been an improvement in agriculture, and where the goods shortages are not as serious as elsewhere in the country. But without some underlying change, it is hard to see how personnel changes alone will revive Soviet society.

Undoubtedly, Gorbachev is in a better position to promote his program now that he has rid himself and the Politburo of conservatives like Vladimir V. Shcherbitsky, a long-time opponent of change from the Ukraine and Viktor M. Chebrikov, the former head of the KGB and a staunch defender of law and order and recently an open critic of the disorder associated with the nationality and labor union protests.

But the third purged member of the Politburo, Viktor P. Nikonov, was appointed by Gorbachev himself and has been in the Politburo only since June, 1987. From all the evidence, he has been a supporter of *perestroika*. However, it was his misfortune to be the secretary for agriculture, one of the major failures of Gorbachev's program. But his departure will not be enough to revitalize Soviet agriculture, especially since Ligachev, Gorbachev's most serious opponent, remains in the Politburo as head of the agriculture policy commission. Indeed, it is Ligachev who has been the most outspoken against private and family farms, and for retaining the state and collective farms. As long as he remains in the Politburo, Soviet peasants are unlikely to set off in large numbers to work on their own farms.

It is also significant that Gorbachev found it necessary to leapfrog Vladimir Kryuchkov, the head of the KGB, into position as a full member of the Politburo. Evidently Gorbachev realized that if he purged Chebrikov, who spoke for the KGB, he had to have some continuing voice from the KGB. However, such a promotion has probably caused resentment among the military, because Dmitri Yazov, the minister of defense, remains only a candidate member.

There is no doubt that Gorbachev is very much in charge. But while the faces have changed, the policies remain much as they did before. And after 4½ years as general secretary, Gorbachev himself has acknowledged that these reforms have not produced the economic improvements he promised.

As a recent story in Moscow has it, a man went into a bar and asked for a pitcher of beer. "That will be one ruble," said the bartender. "But it was only 50 kopecks a few months ago," replied the customer. "Ah, but that was before *glasnost*—now there is a 50-kopeck charge for *glasnost*." So the customer gave the bartender one ruble, but the bartender returned 50 kopecks' change. "What is this?" the customer asks. "You said I had to pay 50 kopecks for *glasnost*." "Yes," answered the bartender, "but we don't have any beer!"

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